

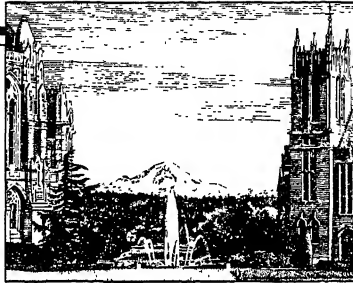
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READINGS  
IN SOCIAL  
SECURITY

**Prentice-Hall Industrial Relations and Personnel Series**

**DALE YODER, EDITOR**

# READINGS IN SOCIAL SECURITY

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## PREFACE

SOCIAL SECURITY is a controversial and dynamic topic with many aspects: philosophical, theoretical, and humanitarian; financial, administrative, social, economic, and political; statistical, actuarial, medical, and legal. Frequent changes in Federal or state legislation and administrative practices have made it difficult, if not impossible, for the average person to keep up with current developments. In the thirteen years which have passed since the Social Security Act was enacted by the Congress, numerous articles, research studies, speeches, and voluminous legislative hearings have been published. Unfortunately, there is not available at the present time a comprehensive book on either the old age and survivors' insurance or our unemployment insurance programs, nor is there available a good, up-to-date general treatment of the entire field, summarizing and coordinating the whole area.

This book of selected readings is aimed, therefore, at meeting the pressing need that exists for many students, teachers, and legislators, hundreds of personnel officers, comptrollers, and other management and union officials, and the 100,000 persons engaged in the administration of social security for material on the basic background and philosophy of social security, the controversial issues, and current developments. The pioneering volumes of Rubinow, Epstein, Armstrong, Douglas, Burns, and Stewart are still valuable but are not up-to-date. The monumental National Resources Planning Board Report on *Security, Work and Relief Policies*, among other things, contains no detailed discussion of health insurance. Various labor economics textbooks such as those by Millis, Lester, Daughterty, Taft, and Peterson are necessarily brief on social security or do not discuss many of the recent controversial and complicated questions, some of which are not solely within the field of economics or labor. Likewise, textbooks used in sociology or social work do not cover such specialized matters as "experience rating" in unemployment insurance, actuarial estimates in social insurance, and similar matters.

This compilation of readings is not intended as a substitute for a definitive text on social security or specialized textbooks for different courses. It is intended, however, to fill the gap for that



large and growing number of persons who want to know the background, philosophy, and current developments of social security and wish to find sources for more detailed study of particular aspects of the topic. At the same time it can be used by the busy student, teacher, legislator, and management or labor executive to locate material quickly on particular programs or issues.

The selection of a very limited number of readings out of the hundreds of excellent sources was no easy task. The editors know they have not made the only possible selection; they are conscious of the fact that many outstanding publications had to be omitted for lack of space, but they have attempted to list many of these in the selected bibliography following each section.

The readings in this volume were not selected in terms of whether the editors agreed or disagreed with the point of view taken or the validity of the arguments or facts presented. We have attempted to select, as in a case book on law, the important "opinions" which bring out the major lines of reasoning—good, bad, and indifferent—from which the reader can develop his own point of view. Although this volume brings together material pointing up trends and developments in many important areas, its value, we hope, will be in the avenues of new ideas that may be opened up to the thoughtful reader for further consideration.

The editors of this volume have attempted to present a selected list of readings that would be balanced and suggestive. It was desirable for a university professor and a government official to collaborate in this venture so that the volume would be of value from both a theoretical and a practical point of view to persons studying or administering social security programs.

The lack of available textbooks or authoritative and critical analyses of the entire social security program is evident by the three reading lists of selected references which appeared early in 1947.\* These lists contain references to articles and books appearing up through 1946. Although a book of selected readings in social security can only include a few of most recent articles, it can and does contain some selections published in 1947 and 1948 as well as references to material published then. One of the real values, therefore, of this book of selected readings, is the ready availability of the

\* The three lists are: U. S. Social Security Administration, *Some Basic Readings in Social Security*. Washington: Government Printing Office, January, 1947, 94 pp. (Publication No. 28, Revised); Princeton University, *Social Security: Selected List of References on Unemployment, Old-Age and Survivors, and Health Insurance*. Princeton, New Jersey: Industrial Relations Section, Department of Economics and Social Institutions, March, 1947, 60 pp. (Bibliographical Series No. 78); Committee on Education and Social Security, American Council on Education, *Social Security Reading List 1947*. Washington, March, 1947, 40 pp.

older basic documents and at the same time the newer and controversial publications.

The three reading lists are invaluable for listing many excellent references which had to be omitted from this book solely for lack of space. The lists also contain many leads to specialized bibliographies, magazines, and organizational material which every student of social security should know.

The many issues and problems in social security and the newness of some of the programs account, in large part, for the fact that much of the important information and opinion is buried deep in Congressional hearings, government bulletins, and professional journals of economists, social workers, statisticians, lawyers, actuaries, and the medical profession. Most of this material is not readily available to the average person. Much of the interesting and important material which throws valuable light on current developments is available only in the mimeographed material published by various organizations, or by groups supporting or opposing legislative changes in the program in Congress or state legislatures. This volume of selected readings makes available some of these items which are difficult to obtain.

Keeping up to date on social security developments is a task of sizable proportions. For those who attempt this task the best single source of current information is the section on "Recent publications in the field of social security" which appears monthly in the *Social Security Bulletin* published by the Social Security Administration.

Professor J. Douglas Brown of Princeton University, one of the outstanding authorities in the United States in the field of social security, has stated that experience indicates that the survival of democratic capitalism will depend upon the genius of man in combining three ingredients—individual incentive, mutual responsibility, and an effective framework of protection against the corroding fear of insecurity. He urges the need for renewed study of and effective action on the question, How can we establish an effective framework against the fear of insecurity in order to sustain individual incentive and to assure mutual responsibility under democratic capitalism?

The editors hope that in some small way this volume will contribute to further study of and effective action on the basic question raised by Professor Brown.

WILLIAM HABER  
WILBUR J. COHEN

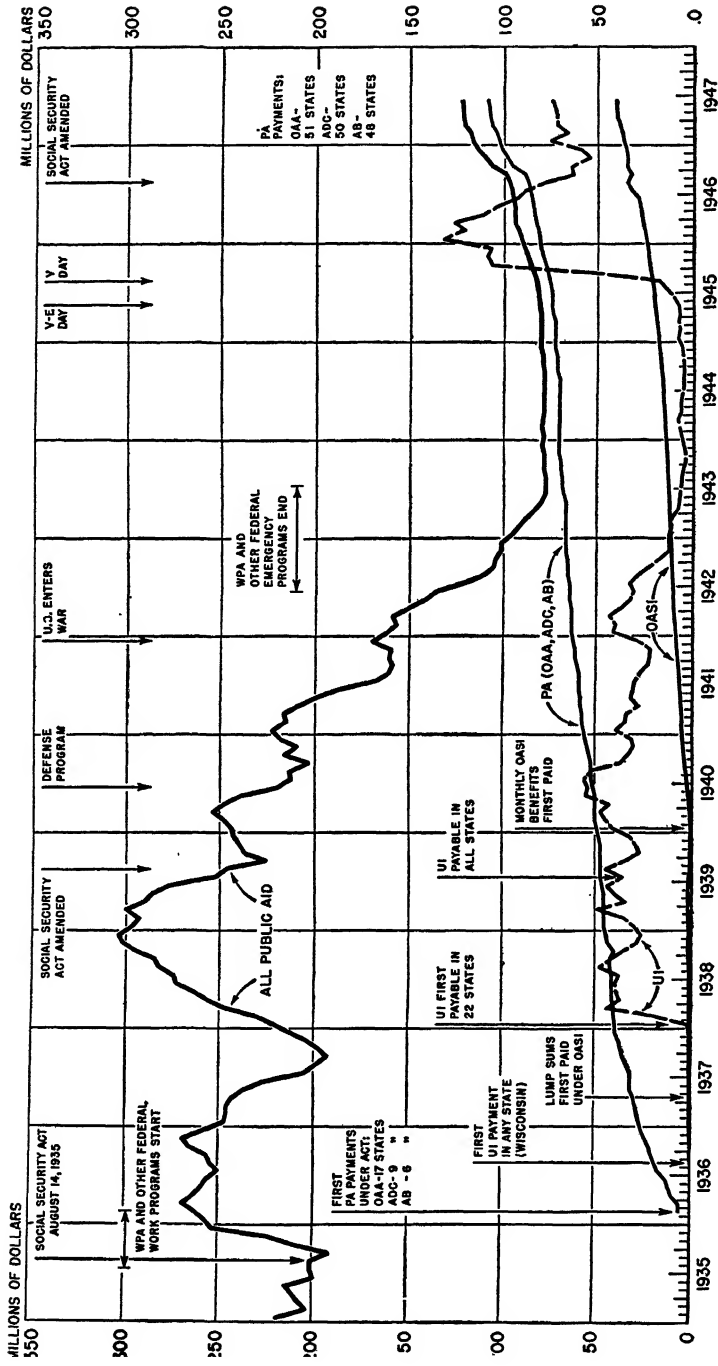


CHART 1. Monthly payments for all public aid (public assistance and Federal work programs) and for public assistance and social insurance

## INTRODUCTION

# INTRODUCTION TO THE MAJOR ISSUES IN SOCIAL SECURITY

"The . . . organization of social insurance should be treated as one part only of a comprehensive policy of social progress. Social insurance fully developed may provide income security; it is an attack upon Want. But Want is one only of five giants on the road of reconstruction and in some ways the easiest to attack. The others are Disease, Ignorance, Squalor and Idleness."

*Sir William (now Lord) Beveridge, SOCIAL INSURANCE AND ALLIED SERVICES. New York: The Macmillan Company, 1942, p. 6.*

" . . . I suggest that [Congress] study the desirability of repealing the Social Security Act before the Nation is entirely engulfed by the legislative program which is being promoted. If we do not save ourselves now, I believe we are headed straight for State Socialism and dictatorship via a comprehensive scheme of National Compulsory Social Security for the entire population. If the Congress fails to see the whole picture and fails to act, the Nation is in grave danger of succumbing to a dual-purpose Social Security program designed to tax, and tax, and tax—rule, regulate, and regiment."

*Marjorie Shearon, Testimony Before Senate Committee on Education and Labor on S. 545 and S. 1320, January 30, 1948.*

**F**EW PERSONS question the need for social security for themselves, or for their children and their neighbors, or even the nation as a whole. But there are major differences of opinion upon how such security can best be attained.

The timeless quest for social security has resulted in many different ways and means to achieve that goal. The modern development of social security began in the 1880's when Chancellor Bismarck in Germany inaugurated a social insurance program. Since that time every major industrial nation has established some type of social security program. Regardless of political or economic philosophy, whether democratic or totalitarian, governments throughout the world have instituted, retained, or expanded social security programs.

In the United States, the principle of social security has been supported by all political parties—Republican, Democratic, Socialist, and Communist. Employers' organizations, labor unions, and numerous civic and professional groups have endorsed the basic idea.

The explanation of this wide acceptance of the general principle lies in the character of our modern industrial society, interdependent, complex, international, based on money incomes and a high degree of occupational specialization.

Some form of social security, therefore, is an indispensable institution in our modern economic life. But how should necessary or desirable social security programs be organized within our complex economic system? Here is where reasonable people begin to differ.

A review of the social security programs in operation throughout the world indicates there is no "best" program in an absolute sense. Each country has tried to develop its social security institutions in terms of its own constitutional and political history, the psychological factors of importance to its people, the extent of private methods of security, the economic conditions of the country, and related institutional factors. There are as many different social security programs in existence as there are countries. Moreover, these programs are amended from time to time. Social security is thus a process rather than a single fixed idea or institution.

It is not surprising, therefore, that specific issues in formulating or revising social security programs should become intertwined with many other fundamental and complex problems. The wide range of issues and related problems can be illustrated by considering a few of them.

How does a specific social security program or proposal affect individual initiative, self-reliance, thrift, and incentive?

Does a particular program or proposal lead to bureaucracy, to restriction of individual freedom, to increasing government controls?

What is the desirable level of cash benefits to be paid under

different social security programs? Should different standards apply to different programs?

Should everyone receive the same benefit or should the benefits vary in relation to previous wages, the number of dependents, the length of time in the program, or should they be based upon need or other factors?

What is the relation of a governmental system of social security to voluntary social security institutions? Can they work together? How? Can voluntary health insurance plans handle the problem of prepayment of medical costs? What is the future of union health and welfare funds? What effect will they have on a comprehensive social security system?

How much would a comprehensive system of social security cost? Could we afford it? Can we afford not to have such a system?

How should social security be financed? Through payroll taxes, general revenue, or earmarked income taxes?

How would such a comprehensive system be administered? How would it be related to our Federal-state system? How can national standards and decentralized administration be assured?

What should be the administrative relationship between the employment service and unemployment insurance?

What are the economic and social implications of a social security program?

Is there need in the United States for a system of children's allowances? What effect would it have on wages, prices, and in improving family welfare?

These are only some of the major questions which must be kept in mind. Although they are difficult, they are not insoluble: they are being solved in numerous countries; they are being solved in the United States. Many of the fears concerning the original Social Security Act of 1935 proved groundless. Many of the administrative problems which were believed to be insuperable have been solved. Is there any reason to doubt that the American genius for innovation can be applied in the further evolution of our social security program?

The editors of this volume have not tried to present their

own ideas in selecting the readings. But we do believe that social security is an important social invention, that it is here to stay, and that it can and will evolve along with our other institutions so that it will always remain a truly American program.

Lewis Meriam has stated that "social security and relief are not in and of themselves directly productive." Although we do not believe that this statement gives a complete or accurate picture, we think it is a provocative one requiring consideration and refutation. Is it fair to say that individual methods of assuring security—life insurance, savings banks, purchase of homes—are not directly productive? Are employer pension plans, Blue Cross hospital insurance plans, accident and health insurance not directly productive? An employer buys insurance for his business plant or inventory because it gives him freedom from the uncertainty of a great loss which may bankrupt him. Bankruptcy would mean loss of capital, unemployment for his employees, and the waste of his skills and the skills of his employees. A sound and effective system of unemployment insurance and employment services can reduce the lost time between jobs, preserve skills, and give employees, employers, and society the advantage of having individuals employed at jobs at their maximum skills. Life or survivors' insurance enables fatherless children to continue their education, thus assuring that the children will be able to make their greatest productive contribution to society. Aid to dependent children helps to keep families together so that children may grow up with the sense of security and well-being that makes for productive citizens. Old age insurance enables employers to regularize the costs of retirement of superannuated employees. Health insurance encourages persons to seek a doctor early because of the absence of a financial barrier in time of sickness. In general any insurance or benefit plan which enables persons to avoid large losses frees such persons from the worry or uncertainty that detracts from their maximum productivity. Assistance or relief programs which prevent or minimize breakup of the family and complete deterioration of the skills and hopes of individuals

contribute to the national welfare and the national security. In the last analysis national production depends upon human beings; consequently, the conservation of human resources is the best investment for national production, national welfare, and national security.

Are security and freedom incompatible? Perhaps theoretically when each concept is carried to an extreme and illogical conclusion. But when they are tempered by reason and practical considerations, we think they are not incompatible. We believe that security and freedom are part of the same problem. Freedom without security is the freedom to starve, the freedom to be homeless, dependent, or sick. Security without freedom is the security of the prison and the concentration camp.

A properly designed social security program can assure both freedom and security, but to achieve this desired objective there is much hard work to be done. Social security programs are not simple to frame or simple to administer if account is taken of all the diverse and complicated issues noted above. There are eligibility provisions, coverage determinations, contribution rates, methods of collecting contributions and paying benefits, fair hearings in cases of disputed claims, and a host of similar problems to be handled.

Social security programs are not simple in their legal formulation or administrative operation. Anyone who reads for the first time the Federal old age and survivors' insurance law or the Federal or a state law relating to unemployment insurance is amazed and depressed at the complexity of the legislation. Neither is it easy to grasp immediately why some programs are exclusively Federal, why others are on a Federal-state cooperative basis, and why still others are exclusively state. Nor is it immediately apparent why one program is financed exclusively by employer payroll taxes, another exclusively by employee payroll taxes, and still others jointly.

Is a simple social security system the answer to the complexities of our present and any proposed program? Each person must answer this question for himself. But it should be kept in mind that a complex society may require a complex social



security system. Not necessarily, of course, but there is presumption that the complexities of a social security program are derived from the complexities of our social and economic system.

There is much to be said for and against a simple social security system. The Townsend Plan is predicated on a simple idea. A concept or a plan that is simple, however, does not necessarily assure the validity of the concept or plan. The new British social security plan is relatively simple compared to the social security systems of many other countries. But can we transplant the British model to United States' soil without numerous modifications?

Perhaps we can simplify our social security program in the United States. This is a desirable objective. It is difficult, however, to see just how this simplification process can occur in any important respects at the present time when there are still important risks still not covered by social security programs. If such programs in the health and disability field are ultimately enacted, it is very likely that they will be more complex than even our present programs. The number and complexity of our private and public health institutions would seem to indicate that they will be related to any governmental medical care insurance program, thus creating a system that will be built upon present arrangements.

We are not predicting the character of our future social security system. But it is safe to say that the future system will be vastly different from that which we have today. Yet the future will be inextricably tied in with the past. This is the history of all social legislation and institutions and is especially true of the development of social security institutions.

New times do bring important breaks with the past. In Great Britain, as a result of the Beveridge plan, the system of flat rate contributions collected by stamp books and flat benefits was retained in the new social security plan. But the "friendly societies" were eliminated after 35 years of use in the social security program; a comprehensive national medical

service was established instead of a very limited health insurance system; and family allowances were established.

The order and timing of establishing various social security programs in different countries also indicates that different institutional factors affect the pattern of social security development. Germany, for instance, the first country to establish a social insurance program, enacted health insurance in 1883; old age and permanent disability insurance in 1889; survivors' insurance in 1911; and unemployment insurance in 1927. Great Britain enacted health, unemployment, and temporary and permanent disability insurance in 1911; old age and survivors' insurance in 1925; family allowances in 1945; and a national medical care service in 1946. Canada enacted a national unemployment insurance program in 1940 and family allowances in 1944. It has no old age, survivors', disability, or health insurance system. Mexico enacted a comprehensive social insurance program in 1942 covering old age, survivors', temporary and permanent disability, health insurance, and workmen's compensation. It does not have unemployment insurance or family allowances. New Zealand consolidated and extended its social security plan in 1938, covering all programs.

Do these chronologies indicate what will happen in the United States? We think that disability and health insurance will be added to our present program. We cannot say when or how. But it would appear that any health insurance program would evolve from our present voluntary plans and thus present a different plan than those in operation in other countries. Because of American wage levels, it does not now appear that we shall adopt a national system of family allowances in the immediate future.

There are some persons who believe that ultimately our Federal-state unemployment insurance program will be abolished in favor of a single national system, and that "experience rating" (the system of varying employers' contributions) will eventually be eliminated from unemployment insurance; others believe that our Federal old age and survivors' insurance benefit will be paid in a flat amount instead of varying with wages

and the years of contributions; others that instead of payroll taxes the costs of social insurance will be financed out of general revenues. Some believe in reducing or eliminating Federal grants to States for public assistance. There are strong advocates and opponents for health insurance, public medical services, and family allowances.

The ultimate decision on these and similar questions \* will depend upon not only economic and financial considerations but also the psychological reaction of people responding to changing economic developments and to changing political developments, domestic and international. It is this combination of elements which makes social security an interesting, vital, and changing subject.

\* For a list of approximately one hundred issues in social security see Senator Eugene D. Millikin's statement, "Comprehensive Social Security Revision," *Congressional Record* (Daily edition), August 17, 1948, pp. A 5526-29.

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MILLIONS OF DOLLARS

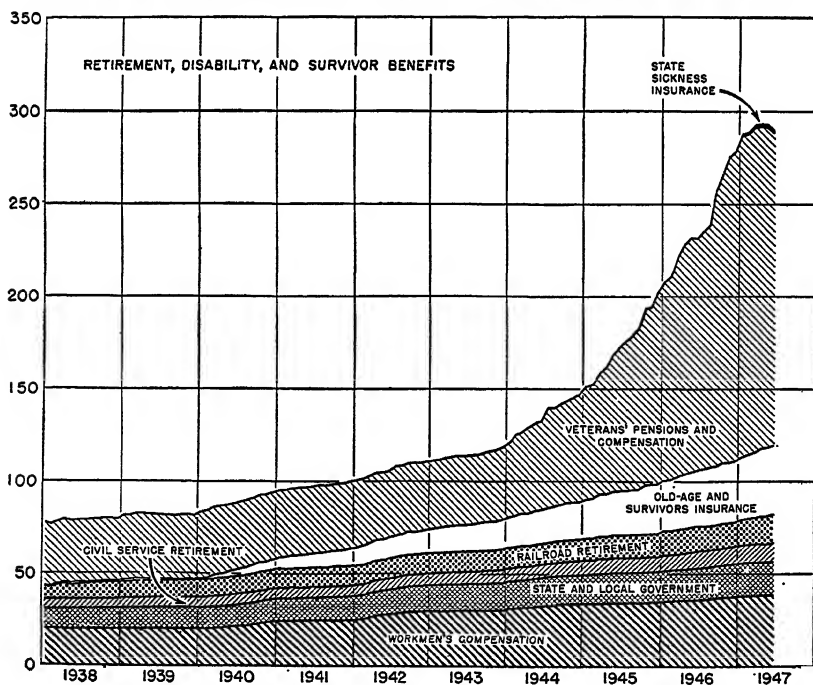
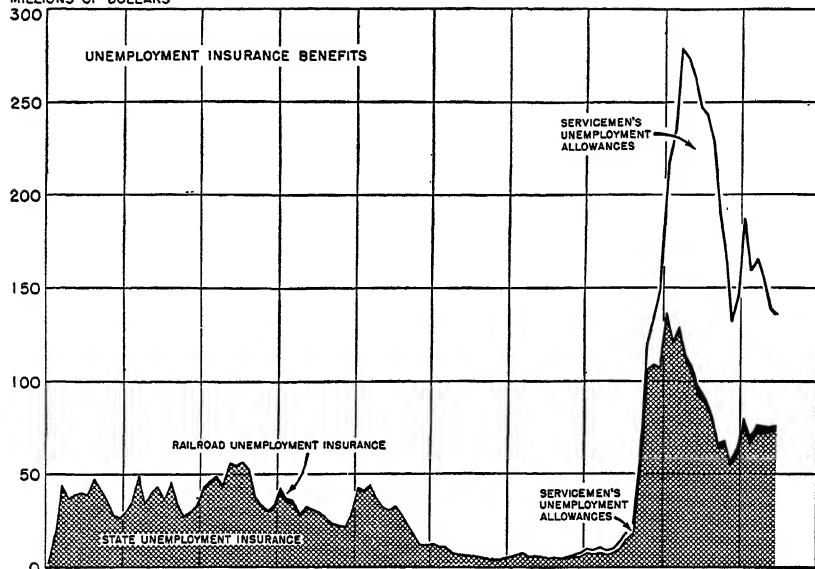


CHART 2. Monthly payments under selected social insurance and related programs, January, 1938-June, 1947.

## CHAPTER I

# THE PROBLEM OF INSECURITY

"... The merits of social security, even in its most modest form, have yet to be tested in the downward swing of the business cycle. Since only minimal demands have been made upon the system thus far, there is little basis for judging whether a full-scale program of state-provided welfare is either necessary or practicable for the long run in this country."

*Virgil Jordan in Foreword to Walter Sulzbach, GERMAN EXPERIENCE WITH SOCIAL INSURANCE. National Industrial Conference Board, 1947, p. v.*

"... even though we achieve the goal of full employment and full production it is still necessary in a system of private enterprise such as ours to have a program designed to eliminate want, because the working people of this country will still be confronted with the great economic hazards of sickness, physical disability, want, old age, and death as well as intermittent unemployment. All of these great hazards mean interruption of income to the individual family and still spell want in a land of plenty."

*A. J. Altmeyer, "Statement Before the Advisory Council on Social Security, Senate Finance Committee," December 4, 1947.*

## INTRODUCTION

THERE ARE NOT just two points of view on social security; there are many points of view. Differences arise over such matters as the amount of benefits to be provided, the methods of financing the costs, the methods of administration, the relationship of public to private plans, and numerous other problems. But basic to any consideration of how any program of social security should be formulated and administered, is the extent and importance of the problem of insecurity. The solutions recommended by many persons are, in large part, deter-

mined by the weight given to the seriousness and ramifications of the problem of insecurity.

In the health field, for instance, the major issue still being debated is whether the inadequacies in health and medical care in this country warrant the establishment of a compulsory health insurance program or whether the problem can be satisfactorily handled by private and local public resources with little aid from the Federal government.

Even if there is general agreement that the extent of the need warrants action, there are differences in the ways suggested to meet the need. At the present time there is general agreement that the need of the aged warrants some national program for old age security. But there are still differences of opinions on what kind of program best meets this need.

The problems of insecurity are much more apparent during periods of depression than during periods of high employment and full production. But even in periods of good business activity there remain many factors which produce serious social problems. Inequalities in income distribution, state and regional differences in employment, educational and health opportunities, racial and other bars to full utilization of the productive skills of minority groups result in dependency and want. Physical or mental inadequacies, delinquency, crime, and similar human failings result in want for some families. In good times or bad, people become aged or disabled, become unemployed or die, leaving dependents unable to buy the necessities of life in a money economy.

All through the consideration of specific issues in social security the reader will have to weigh in his own mind the seriousness of the problem of insecurity. Is the remedy appropriate to the evil to be remedied? What are the consequences of one remedy as against another? The answers to these and similar questions will depend, in large part, upon detailed and accurate knowledge about the character and extent of insecurity in our society.

Insecurity is a changing problem. It varies with the business cycle, the character of the economy, and the life cycle of the

family. It varies as our social and economic institutions provide new protections. It varies as the standards of living change.

Methods of dealing with the problems of insecurity also vary. As our society becomes more complex, the methods of dealing with insecurity also become more complex. The recent spurt in the development of health, welfare, and retirement plans through collective bargaining raises many new problems. These problems were further complicated by the enactment by Congress of provisions in the Taft-Hartley labor relations law in 1947 which laid down certain conditions with respect to such plans. It will be interesting to watch what the effect of such plans will be on the public provisions for social security and how such plans will be coordinated with other social security programs.

To understand and critically appraise past and present developments as well as any future changes, familiarity with many different forces in our society is vitally necessary. The historical factors involved in the establishment and growth of our nation; social and political institutions; economic institutions and economic conditions—all these and many more are part of the picture. Over one hundred years ago a leading writer said that "Misery generates hate." This brief but accurate statement indicates that there are many ramifications of the problem of insecurity. If misery breeds hate, hate breeds war. So what first appears to be the problem of an individual is discovered, on analysis, to be the problem of the family, the church, the community, the state, the nation, and the entire world.

The immediate problem in meeting insecurity is to make possible a more equitable distribution of available goods and services; the broader task is to see to it that there are more goods and services for everyone, and that they are equitably distributed. These are large tasks. They cannot be accomplished by any single person or group of persons working alone; they require social engineering of the highest order.

In the world of practical affairs issues and problems are usually combined of inter-related and sometimes conflicting

forces. It is impossible under such circumstances to divide a complicated subject like social security into self-contained chapters without frequent cross references to other chapters. Chapter I provides the broad general background of those factors in our national economy that have made it necessary to deal with the problem of insecurity on a national basis. Later chapters, particularly the first two readings in Chapters IV and V and the first readings in Chapters VI and VII, provide additional material on specific areas of insecurity.

## *WHY SOCIAL SECURITY?*

Mary Ross, Social Security Board,  
Publication No. 15, 1945.

THE MUSKET over the fireplace once stood for security in American homes. It meant game for the pot. It gave protection against unfriendly beasts and Indians. It was a first defense against hunger and danger in the new land.

Probably no families in the world ever have been as self-reliant as the Americans who wielded their muskets in the Colonies and on the frontier. They literally made their own living, for a family had little or nothing except what its members could do and make. A large family was an advantage, since then there were many hands to plant and weed and harvest, to chop wood, to carpenter, to spin and dye and weave, cook and sew. A widow with children was a matrimonial prize.

Our Thanksgiving celebrates the security of the colonists. Our turkeys are the descendants of the wild turkeys their muskets brought down; our cranberries, of the cranberries they found in the bogs. Our pumpkins, potatoes, and onions still commemorate the good harvest the Pilgrims gathered in 1623.

For 250 years and more many American families, like the first colonists, measured their security in terms of the things they could make and do for themselves. As the frontier stretched westward, covered wagons carried with them the habits and ideals that had conquered the wilderness at Jamestown and Massachusetts Bay.

Now automobiles plunge in days over the trails that a scout on horseback or a wagon could travel only in months, and airplanes cross the continent in a single hop. The ways in which American families live have changed as swiftly as the ways in which they travel.

Within the lifetime of people still living, the frontier has all but vanished. Change is so obvious that we are likely to take it for granted. It has come so quickly that it is hard to realize what it means to us who live today.

In the following pages will be found an outline of some of the changes that have brought us to days when we reach for a pay envelope, not a musket, to get our food and protect our homes.

### **Work moves to the city**

As late as 1890, more than a third of the Nation's homes were on farms. Country families are bigger than city families. Hence it was not until 1920 that the census found a greater number of people in the towns and cities than on farms and in villages. Today the farms have only about a fifth of the homes and less than a quarter of the population. In hardly more than a generation we have ceased to be predominantly a nation of country people.

Boys and girls left the farms because the road of opportunity led to the city. Not so many hands were needed on the farms. Machines were taking over work that muscles once had done. Science taught more efficient ways to use the land. Up to 1870 the farms had more than half the Nation's workers, not counting children. By 1940 they had less than one in six.

As invention and science multiplied the output in one field after another, more of our energy could be turned into jobs which have to do with services, rather than things. There has been a growing number of restaurant and lunchroom keepers, janitors and elevator operators, barbers and manicurists, doctors, dentists, and trained nurses; of librarians, teachers, and other public servants; actors, authors, and artists; lawyers, chemists, and technical engineers.

Some of these added jobs represent services which families formerly had done for themselves at home. Others reflect our rising standards of living—more and better education, better health, more leisure, greater comfort and convenience in daily living.

### **Making a living and making money**

The life in all these many occupations differs in one way from that of the farms where once most Americans made their living.

Today we do make a living. We buy it. We make money, and that money mostly determines the kinds of houses we live in, the

food we eat and the clothes we wear, the security and independence we look to in hard times, sickness, and old age.

Even in the Colonies, of course, some things were bought and sold. Paul Revere was a silversmith as well as a soldier. But the colonists used money chiefly to buy the luxuries of those days, such as Paul Revere's porringers, or fine furniture, or tea, coffee, and spices.

Many Americans lived as did a New England farmer who wrote in his diary:

"My farm gave me and my whole family a good living on the produce of it and left me, one year and another, one hundred and fifty dollars, for I never spent more than ten dollars a year, which was for salt, nails, and the like. Nothing to eat, drink, or wear was bought, as my farm produced it all."

On the farms of our grandparents where soap and candles were made and hogs butchered for the smokehouse, a family still made a considerable part of its living without using money. Even today, an important part of the "income" of farm families comes in the things they raise and make for themselves.

But farmers, too, now must have money. They need it for the kinds of things we no longer make at home and also for the modern tools of their trade—for machines and gas and oil to run them with, for commercial fertilizers, for radios to follow weather and market reports.

In the towns and cities, money is the means of existence from day to day.

The home of a pioneer family was a little world in itself. Members of the family were their own farm and factory workers, butchers, bakers, and barbers; policemen and firemen; often their own doctors and nurses, and sometimes their own teachers as well.

As one of these occupations after another has gone out from under a family's roof, it has become possible for us to have more goods and services than a family can produce for itself. But most of a family's chance to have them depends on its ability to buy a living.

### **A family no longer is a firm**

It is common to hear young people discussing when they can afford to marry and have children. That question would have astonished young people on the frontier.

A young man then could hardly afford *not* to marry. He needed a wife as a business partner, children as helpers. In early New England not only spinsters but bachelors were under a cloud.

Bachelors, in fact, were regarded with suspicion. Usually they had to live where the court told them to. Single people had to attach themselves to a family to get a chance to work for their living.

Both the children and the old people earned their place at the family table.

As we have shifted from a land economy to a money economy, the work of the young and the old no longer has the same value in helping a family to make its living.

Children need more schooling. Once they learned from their chores, while doing the family's business, many of the things they needed to know as adults. Now work at home fails to give them the background they need for jobs in business, trades, and professions. State by State, we agreed that children must go to school.

Change in the work done at home and in our knowledge and standards of child care made children almost a luxury to a family, instead of an economic asset. Families are smaller, especially in the cities. There are fewer sons and daughters to care for the old people of future years.

Old people, like children, have lost much of their economic value to a household. Most American families no longer live in houses where one can build on a room or a wing to shelter aging parents and aunts and uncles and cousins. They no longer have gardens, sewing rooms, and big kitchens where old people can help make the family's living.

Old people were not "dependent" upon their relatives when there was need in a household for work they could do. They have become dependent since their room and their board cost money, while they have little to give in return. Now they need money of their own to keep the dignity and independence they had when their share in work was the equivalent of money.

The shift of work away from homes also explains the work of girls and women today. Women have always worked for their living. When work left the home, they followed it into factories and offices. By 1930 the census found a quarter of all the girls and women "gainfully occupied," not including housewives working without pay for their families.

Studies of employed women have shown again and again that they, like men, get jobs in order to support themselves and their families. In other words, they, too, have shifted from making a living to making money. It is among native-born white American women that the habit of wage work has grown up so rapidly.

Married women, like single women, find it necessary to work for wages. Between 1900 and 1930 the percentage of married women at gainful work increased six times as rapidly as that of single



women of the same ages. Many married women carry the double job as housewife and wage earner. Here again, studies show that they do it because their families need their money. Most of the work of wage-earning women represents not women's rights but women's duties.

During our lifetime it has become increasingly difficult for a family to pull together and go into business for itself in one way or another.

For years there was good land to the westward to be had for the taking. Homesteading was an outlet for the sturdy and ambitious. In the towns, family shops and businesses were carried on with relatively small amounts of capital.

There is no more free land on which a living can be made. A farmer needs machines as well as skill and grit if he is to compete in the market. In the towns and cities, modern methods of production and merchandising have greatly increased the experience and capital needed to go into business and stay in business.

Individual enterprise, which so often meant family enterprise, now plays a minor part in earning our national income. Including the farmers, only about one in five of the gainfully occupied works for himself. As a people, we no longer work as individuals or families, but as employees.

### **Life is safer, but living less secure**

The safety of life has never increased as rapidly at any time on record as in the past 50 years.

Take Massachusetts, for example, where there are records over a long period. A baby born in Massachusetts in 1789 had, on the average, an expectation of a life of about 35 years. In the next century the expectation of life at birth increased about 8 years; babies born in Massachusetts in 1890 had before them a life expectation of 42.5 years for men and 44.4 years for women. But between 1890 and 1930 those averages grew to more than 59 years for men and more than 62.5 for women. The gain in the 40 years following 1890 was twice as great as that of the whole century preceding.

This gain in average length of life has come almost wholly from success in saving the lives of babies, children, and young people. More of us live to reach middle age and old age. At the same time the birth rate has been declining. The result of these changes is that old people form an increasing percentage of the population.

While life became safer, the chance to earn a living became less secure. The growth of employment in basic industries began to

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slow up. Machines and improved methods made it possible to increase output without increasing the number of workers needed to produce it. Then, for the first time, one important field of work after another reached its peak in employment and began to decline—began to use a smaller number of workers.

All through the prosperous years of the 1920's there were fewer workers on the pay rolls of factories and steam railroads than there had been at the start of the decade. In 1930 the average number of factory workers was 1,500,000 less than that in 1920. The average number of employees of steam railroads had dropped by 500,000.

A man no longer had the same chance to continue through his working years in the occupation he had learned as a boy. The new openings in trade and the service occupations and professions often made specialized demands which workers from the older industries found it hard to meet. It was not likely to help a jobless miner, for example, to learn that more barbers were being employed.

This shift in occupations was particularly difficult for older men. From 1890 on, an increasing percentage of the men of 65 and over was reported as unoccupied.

With the census of 1920 a more general change appeared. In that year and in 1930 the reports showed a drop in the percentage of all men and boys of 16 and over in gainful occupations. In spite of the increasing employment of girls and women, these reports found a decline in the proportion of all Americans of 16 and over in gainful occupations.

Work has been shifting from place to place as well as from occupation to occupation. Manufacturing was declining in New England, for example, at the time when the growing automobile industry pushed it upward in the Central States. Often families must move to follow jobs or find them.

Americans always have moved in search of a living. The older migrations, however, were likely to be those of people who expected to found a new home, settle down, and grow up with the town. The quick shifts of recent years have split up families. They have weakened the old ties of kinship and neighborliness on which a family used to rely. The loss of neighborliness and the increasing size of stores and factories have weakened the personal ties between workers and their employers.

As work has become specialized, we also have developed occupations in which the demand for work shifts from season to season.

On family farms work was, and is, seasonal, in the sense that

each season has its particular demands. But indoors and outdoors, there is something useful to be done each month of the year. The season for wood cutting comes when the fields are bare; for sewing, before or after pantry shelves are stocked with jellies and preserves.

But when factories began to turn out the clothing that families once had made during the spring and the fall sewing, factory workers entered jobs in which they were likely to go the way for only part of the year. A cutter or a machine operator is an expert at his own job, but he finds it is hard to earn in some other way when the factory slows down or closes.

All these changes in the kinds and places and time of work have made the demand for workers changeable and uneven. As a result, many workers—especially industrial workers—often have been without jobs even in boom times.

The Committee on Economic Security found that in the years 1922-29 an average of 8 percent of our industrial workers were unemployed. In the best of those years, nearly 1,500,000, on the average, were without jobs.

When hard times came, further millions lost their chance to earn a living. By 1932 and 1933 industrial unemployment had risen to about 39 percent. That meant two industrial workers out of five—10,000,000 or more in all.

The word "unemployment" was not used in English dictionaries before 1888. "Unemployable" came into use only a year earlier.

As far as we can look back, men and women, of course, had lost one way of earning their living and had to find others. Groups of workers, like the hand weavers, had seen their work taken over by machines. But it is only recently that we have realized that it could be a widespread situation—even in good times, on the large numbers of people who needed to work and for the next had no chance to do so.

It was not until machines had knit our lives closely together in industry and trade that unemployment could weigh down families throughout a community or a nation. Only recently have we realized that the requirements of work have become so specialized and exacting that at any one time some people cannot get any part of

In our present money economy, unemployment became a common hazard of family life like the epidemics which swept away three or four generations ago. The livelihood of families can be cut off as quickly and unexpectedly as their lives once were cut off by typhus, yellow fever, or cholera.

Unemployment is like a contagion also because it spreads. When a big factory shuts down, its whole neighborhood and city suffer. The livelihood of all who have been selling their goods and services

to those wage earners is affected—storekeepers, landlords, doctors, barbers, owners of movie houses, and, in turn, the workers whom they employ and those who produce the goods they sell. When large numbers of people in one part of the country are without earnings, families on farms and in cities hundreds of miles away may find their living less secure.

Science and invention have given ordinary people ease and a variety of which even rich people of earlier civilization did not dream. A pair of fine stockings once was a present to a king or queen. But this progress has a price. It demands that we use our ingenuity to keep families independent, now that their living hinges on the judgment, skill, and good luck of many other people as well as of themselves. We have shown our ingenuity in making machines and scientific discoveries. The job now is to adapt our common life to the changes that came with our progress.

### Family security and social security

The words "social security" have become popular in the last ten years. Actually the right and duty of a community to protect its members is as old as the records of men. Primitive tribes have rules and customs to assure the safety of all.

Even pioneer American families, of course, relied on each other for help in trouble and emergencies. Barn raisings and corn huskings, which have lasted down to our times, are a survival of years when a household asked the neighbors' help in an emergency, knowing it would give its help when its turn came.

Primitive societies did not rely wholly upon the willingness of each other. They did not rely wholly even on the occupation of families to support their own members. The common law of England, for example, lays down the duties husbands and wives owe to family support.

Under later circumstances we have found many of the older laws oppressive, such as the laws which restricted the right of a woman to her earnings, or her right to hold or will property, or to make decisions about her children. Those laws, however, were intended for the protection of families in the circumstances which existed when the laws were made. They held a family together as an economic unit.

The great English commentator, Blackstone, wrote: ". . . even the disabilities which the wife lies under are for the most part intended for her protection and benefit. So great a favorite is the female sex of the laws of England."

In the Colonies, drawing their traditions from England, a hus-

band was obliged by law to support his wife in the manner justified by his circumstances. He was liable for the debts she had contracted before her marriage, as well as later ones. She had a right to inherit part of his estate when he died. In these ways, law and custom, as well as affection, protected the security of persons least able to get security for themselves.

Since a living was made in families, it was through families that a community made and enforced its security measures.

Many of these measures remain with us today. The security of children, wives, and aged parents does not depend on the willingness of their family to support them. It is written into our laws and enforced daily in our courts. It is a form of social security, because as a society we see to it that members of a family give this support when they can, whether they wish to or not.

### **Security in health and safety**

As cities have grown up we have taken another series of steps for social security by banding together to pay for certain kinds of protection that no one family can provide for itself. We have police and fire departments, for example. We make fire laws governing the kinds of buildings that people may build in safety to themselves and their neighbors. We support public health departments. We set up traffic regulations to protect safety of life on the highways and streets.

We also have taken steps to aid helpless people who need a kind of care or an amount of protection that few families can provide for themselves. As our increasing scientific knowledge showed the need and the way, we built hospitals for the mentally sick and for people with tuberculosis. We made laws and opened clinics and special schools for crippled children.

At first these measures to help unfortunate people dealt chiefly with those who were dangerous to others, such as mental patients and people sick with communicable diseases. More recently we realized that it is public economy as well as kindness to make sure that other disabled people get care, since often they can recover enough to earn a living for themselves. It is cheaper to cure them than to care for them for years in institutions.

About forty years ago we began to realize that security in health and life must follow people out of their homes and into the factories.

Our greatest success has come in making life safe for children.

Up to about 1900 many children had gone along with their elders into the factories. In 1900 nearly a fifth of all the 10-to-16-

year-old children were at work. This was a larger percentage than had been found in any previous census year.

Then State after State decided that factories were not places for children. Laws were passed to restrict child labor and to specify the conditions under which children might work, if at all. At the same time other laws made it compulsory for children to have more chance to go to school and stay in school. In 1930 less than one-twentieth of the 10-to-16-year-old children were in gainful work.

We have not yet lifted by any means all the burden of harmful labor from the shoulders of children, but most of it is gone. And in the twentieth century we have come far toward achieving what some of the colonists set themselves as a goal: the right of children to the security of an education. In 1932 President Hoover's Committee on Recent Social Trends declared that the fact that half the children of high-school age were in the high schools was "evidence of the most successful single effort which government in the United States has ever put forth."

In the past half century many States have passed laws to promote health and safety in work for adults as well as for children—laws governing hours of work, night work, dangerous work, and the like. These are conditions which workers no longer can control for themselves as they could when they worked at home.

### **Saving for a rainy day**

Our expression "saving for a rainy day" recalls the times when families stored wood in the shed and food in the cellar and pantry for seasons when it was difficult or impossible to go out to fetch them. Why do they not store money in the bank now for the time of unemployment or old age when wages stop?

There is an answer to that question in a study made by The Brookings Institution of family incomes and savings for one of our richest years, 1929, and in a later study made by the Office of Price Administration for the war year 1942. "Savings" in these studies include not only money put in the bank but payments on mortgages, life insurance premiums, and the like.

The Brookings Institution found that in 1929 families with incomes under \$1,000 spent, on the average, more than they received. They drew on past savings or got outside help or went into debt. Families with incomes of less than \$1,000 represented a fifth of all the families of the Nation in 1929.

Families with incomes of \$1,000 to \$1,500 kept even, on the

average, but saved little, especially in the cities, where everything had to be bought and living costs were higher. These families represented another fifth of all families in that year.

Families with \$1,500 to \$2,000, accounting for nearly another fifth of the families, saved a little as a group, but not much. The reason is not hard to find. At 1929 prices, the study pointed out, a family income of \$2,000 "may perhaps be regarded as sufficient to supply only basic necessities."

Thus in the rich year 1929, three-fifths of the families in the United States could put by nothing or only a little for the hard times that were coming. More than 85 percent of all the family savings in that year belonged to the richest tenth of all the families, those with income of \$4,600 or more.

By 1942, the pressures of war had forced total family income in the United States far higher than in 1929. But the pattern of family income and saving shown by the OPA study was not very different.

In 1942, more than one-fifth of the families had money income of less than \$1,000 and, as a group, were in the red for the year. About half the families had less than \$2,000 in money income.

Total family savings in 1942, like total family income, had greatly increased, partly because of wartime pressures and partly because it was hard or impossible to buy things like automobiles and refrigerators. But again, nearly all the saving was done by families in comfortable circumstances. The half of the families with less than \$2,000 made less than 3 percent of all the family savings. About 58 percent of all the savings, on the other hand, belonged to the richest 10 percent of the families, those with money income of \$5,000 or more.

Should families have saved more than they did?

Even low-income families today are likely to regard as necessities things which their parents may have done without, such as running water, electricity, haircuts, movies, a greater variety in clothing and diet. It costs more to be sick. Medical care is better and therefore more expensive. An employee who loses time from his job because of sickness often loses pay and sometimes loses the job as well.

But what would happen if all families did save as much as they could by doing without all but the barest necessities?

The families who now save little—those with low and moderate incomes—make up a large share of the markets on which our living depends. In 1929, 71 percent of all the families and in 1942, 62 percent, were under the \$2,500 mark. Their spending is necessary to hold up the fabric of trade and industry on which the living of the Nation depends.

When a large part of the population cuts down spending, that

fabric sags, and workers and others feel the weight of hard times. That is what happened in the early years of the depression when fear and necessity made people stop buying.

There seems no question of the willingness of American families to save when their incomes approach a comfortable level. But the evidence of this study shows that most families, and especially the families whose risks are greatest, have little to look to when a rainy day comes. Their security lies in the steadiness of their earning and the safety of what savings they are able to make for the years when they no longer can earn.

When trade and industry brought people together in towns and cities, it no longer was safe for each house to have its own well. The safety of the whole town made it necessary to have a town water supply.

The safety of all of us now depends also on regular earning and spending. Unless many people are buying what others are producing and selling, earnings are less, jobs are fewer, and all of us have less chance to earn. The well-being of families depends on the ability of other families to buy.

Family security, in short, once dependent on work done at home, has followed the work of the family out of the home. Social security is no longer home-made.

### **The Social Security Act**

The Social Security Act of 1935 grew out of these changes in American life. It brought together our past experience in meeting insecurity. It also set up a bulwark against some of the newer kinds of insecurity which threatened large numbers of us in this twentieth century. After 4 years' experience with the law, Congress extended and strengthened it in 1939.

The Social Security Act helps to provide some income to people who are little able or unable to earn. In one way or another, the cost is spread over large numbers of people to provide some security for those of their number who are unfortunate at any one time. The act is a foundation on which all of us, working together, have begun to build security against risks which very few of us can meet alone. As time goes on and as we learn by experience, these protections may be further broadened and strengthened.

What we want today is what Americans have always wanted and worked for. The colonists and frontiersmen wanted independence and opportunity for themselves and their children. They wanted to



make their own living and to take an active share in the life of their times. All that has changed today is the way we take to get these things. Our security is the security of the whole people.

## *SURVEY OF CONSUMER FINANCES*

Federal Reserve Board, *Federal Reserve Bulletin*, July and August, 1947.

**A**N IMPORTANT aspect of the economic transition from war to peace was a substantial rise in money incomes received by individuals. It is estimated that income received by individuals residing in the continental United States and covered by this survey amounted in 1946 to at least 10 billion dollars more than in 1945. This is a somewhat larger increase than the growth shown by aggregate estimates of total income payments; the latter include the pay of Federal, military, and civilian personnel overseas, which declined in 1946, and thus understate the actual increase in income payments within the continental United States between 1945 and 1946. As our armed forces were withdrawn from overseas, payments to individuals within the United States and thus within the scope of this survey increased considerably.

Individual holdings of liquid assets—United States Government bonds, savings accounts, and checking accounts—also increased during 1946. As estimated from over-all banking and Treasury statistics, these holdings amounted to approximately 8 billion dollars more at the beginning of 1947 than a year earlier. The bulk of the increase occurred in savings accounts and checking accounts, while holdings of United States Government bonds rose only moderately.

*Consumer income.* (1) The over-all increase in total money income during 1946 was accompanied by a significant shifting of spending units to higher income groups, with the result that 60 percent of all units received annual incomes of \$2,000 or more in 1946, as compared with 53 percent in 1945, and the median income for all units rose from a little over \$2,000 in 1945 to \$2,300 in 1946.

(2) About seven of every ten spending units experienced some change in income between 1945 and 1946, increases being more frequent than decreases.

(3) The shift of consumers towards higher income levels was particularly marked for such occupational groups as professional persons, managerial groups and self-employed businessmen, clerical

and sales personnel, and farm operators. There was no significant change in the income levels of skilled, semi-skilled, and unskilled workers. It is known that basic hourly wage rates for many of these workers were higher in 1946 than the year before, but, on the average, the amounts of total annual income remained about the same.

(4) Spending units in the clerical and sales and the professional groups reported the largest number of increases in annual money incomes during 1946 while unskilled wage-earners reported the fewest increases. Skilled and semi-skilled wage earners showed more decreases than any other group, but also an average number of increases.

(5) There was no significant shift between 1945 and 1946 in the proportion of total income received by the 30 percent of spending units with the highest incomes in each of these years. About 60 percent of total money income was accounted for by these groups in both years. The remaining 70 percent of the spending units received about 40 percent of total income in both 1945 and 1946.

(6) Optimism generally characterized consumer expectations as to 1947 incomes, especially among spending units in occupational groups with higher average incomes.

*Liquid asset holdings.* (7) Half of all spending units had annual incomes in 1946 of between \$2,000 and \$5,000, received a little over half of aggregate income for all units, and early in 1947 owned nearly half of the total amounts of saving accounts, checking accounts, and Government bonds held by individuals for their personal accounts. The incomes and liquid asset holdings of these persons are no doubt much greater than in prewar periods. The 10 percent of spending units with annual incomes of \$5,000 or more received almost a third of total income and held about two-fifths of all liquid assets of the types reported. The remaining 40 percent of spending units had incomes below \$2,000 and accounted for approximately 15 percent of income and of liquid assets.

(8) There was little change during 1946 in the relative degree of concentration in the ownership of liquid assets as compared with the previous year. This was true because the over-all increases in liquid assets were generally distributed among the various segments of spending units in amounts proportionate to their status in the previous year. A ranking of liquid asset holders either by size of income or by amount of liquid asset holdings as reported in the first and second surveys of consumer finances shows no significant change in amounts of liquid assets held by each tenth of the spending units thus arrayed. In other words, the share of the total increase in liquid asset holdings received by spending units at the

upper end of the income scale was roughly in proportion to their share of total holdings at the beginning of the year.

(9) Liquid assets continued to be dispersed in widely varying amounts among individuals within each income group.

(10) As compared with the beginning of 1946, about 3 million fewer spending units reported that they held Government bonds in early 1947. This shift was offset by increased numbers of spending units having savings accounts and thus the proportion of spending units holding some type of liquid asset was about the same for both years.

(11) Professional persons and managerial and self-employed businessmen most frequently held liquid assets, and, moreover, held relatively large amounts of them. Unskilled workers most frequently held no liquid assets; about one-half of the spending units in this group reported no holdings, and the majority of unskilled workers with holdings had relatively small amounts.

\* \* \*

During war years, involuntary spending restrictions and a high rate of saving accompanied limitations of civilian goods production. As production limitations were gradually withdrawn near the end of the war, however, consumer expenditures increased far more rapidly than consumer incomes and the rate of saving declined. According to Department of Commerce estimates, net personal saving for all spending units showed a decline in 1946 to about 8 percent of total personal income, compared with 17 percent in 1945, over 20 percent during the war period, and an average of around 5 percent in preceding years. Results of the survey of consumer finances provide a picture of the varying rates and forms of saving by different groups of spending units in 1946.

### Summary of findings

(1) An appreciable number of spending units continued to save relatively large amounts of their income in 1946. The decline in net saving by consumers in 1946 from the large volume of saving in 1945 reflected not only reduced saving by some consumer units but also a considerable amount of expenditures in excess of income, that is, dissaving, by a sizable number of others. Dissaving occurred when consumers spent in excess of their incomes to purchase consumer goods or to meet emergency outlays.

(2) Most frequently reported forms of positive saving in 1946 by spending units were payments of life insurance premiums, in-

creases in holdings of Government bonds, savings accounts, and checking accounts, payments on mortgages, and contributions to retirement funds. Reductions in holdings of liquid assets and borrowing were the primary forms of dissaving.

(3) The half of spending units with incomes of \$2,000 to \$5,000 in 1946 accounted for about two-fifths of net saving; little change from 1945 occurred in the share of total savings of this income group. Spending units with incomes of \$7,500 or more also accounted for about two-fifths of total net saving in 1946. In all probability, this was a somewhat larger share of net saving than this group accounted for in 1945, for which comparable figures are not available. Small amounts were saved on balance by spending units with incomes between \$1,000 and \$1,999, but in the lowest income group (under \$1,000) the positive savings of some spending units was more than offset by the dissaving of others.

(4) A high percentage of spending units containing veterans of World War II dissaved in 1946. While these veteran spending units accounted for somewhat more than one-fifth of the total spending unit population, they made up one-third of the number of spending units reporting dissavings.

(5) While positive saving was most closely associated with income, dissaving was influenced by such additional financial factors as the ownership of disposable, especially liquid, assets and eligibility for credit.

(6) Wide variation was revealed in holdings of selected non-liquid assets in early 1947. Three-fourths of the 46.3 million spending units reported at least one person carrying life insurance, over two-fifths indicated they owned their homes, and no more than one-tenth reported that they owned stocks or bonds other than Federal securities.

TABLE 1  
SHARE OF TOTAL MONEY INCOME RECEIVED BY EACH TENTH  
OF THE NATION'S SPENDING UNITS, WHEN RANKED BY SIZE  
OF INCOME, 1946 AND 1945\*

<i>Spending Units Ranked According to Size of Income</i>	<i>Percentage of Total Money Income Received Before Taxes:</i>				<i>Amount of Income of Smallest Income Receiver in Group</i>	
	<i>By Each Tenth</i>		<i>Cumulative</i>		1946	1945
	1946	1945	1946	1945		
Highest tenth . . . . .	32	29	32	29	\$4,850	\$4,450
Second . . . . .	15	16	47	45	3,750	3,500
Third . . . . .	12	13	58	58	3,100	2,950
Fourth . . . . .	10	11	69	69	2,700	2,450
Fifth . . . . .	9	9	78	78	2,300	2,050
Sixth . . . . .	7	7	85	85	2,000	1,700
Seventh . . . . .	6	6	91	91	1,500	1,350
Eighth . . . . .	5	5	95	96	1,150	1,000
Ninth . . . . .	3	3	99	99	700	550
Lowest tenth . . . . .	1	1	100	100	0	0

\* The 1945 income data are based on interviews in January-March, 1946 (first survey); the 1946 income data on interviews in January-March, 1947 (second survey). It is possible that the proportion of income received by the highest tenth of income receivers is underestimated by several percentage points in both years. A sample of approximately 3,000 spending units having been used in both surveys, it cannot be expected that a completely representative sample of the highest dollar incomes was obtained.

NOTE.—Detailed figures may not add to cumulative figures because of rounding.

TABLE 2  
DISTRIBUTION OF SPENDING UNITS, MONEY INCOME RECEIVED, AND  
LIQUID ASSETS, BY INCOME GROUPS, 1946 AND 1945\*

<i>Annual Money Income Before Taxes</i>	1946			1945		
	<i>Spending Units</i>	<i>Income Received</i>	<i>Liquid Assets Held†</i>	<i>Spending Units</i>	<i>Income Received</i>	<i>Liquid Assets Held‡</i>
Under \$1,000 . . . . .	17	3	5	20	5	7
\$1,000-\$1,999 . . . . .	23	12	11	27	16	14
\$2,000-\$2,999 . . . . .	25	21	17	23	23	17
\$3,000-\$3,999 . . . . .	17	20	16	15	20	16
\$4,000-\$4,999 . . . . .	8	13	12	7	12	10
\$5,000-\$7,499 . . . . .	6	11	13	5	11	13
\$7,500 and over . . . . .	4	20	26	3	13	23
All income groups . . .	100	100	100	100	100	100

\* Covers 1946 and 1945 money income before taxes and liquid assets held in early 1947 and early 1946. The 1945 income data and early 1946 liquid assets data are based on interviews in January-March, 1946 (first survey), and the 1946 income data and early 1947 liquid assets data on interviews in January-March, 1947 (second survey).

† Early 1947.

‡ Early 1946.

TABLE 3  
MEDIAN AMOUNTS OF MONEY INCOME AND LIQUID ASSETS OF  
SPENDING UNITS, BY INCOME GROUPS, 1946

<i>Annual Money Income Before Taxes</i>	<i>Median Income (in Dollars)</i>	<i>Median Liquid Asset Holdings (in Dollars) *</i>	<i>Median Holdings as a Percentage of Income</i>
Under \$1,000.....	\$ 600	\$ 0	0
\$1,000-\$1,999.....	1,450	40	2
\$2,000-\$2,999.....	2,400	480	20
\$3,000-\$3,999.....	3,350	900	27
\$4,000-\$4,999.....	4,400	1,400	32
\$5,000-\$7,499.....	5,500	2,750	50
\$7,500 and over.....	10,250	7,250	71
All income groups.....	2,300	470	20

\* Includes holdings of all U. S. Government bonds, savings accounts, and checking accounts as of early-1947. Excludes currency holdings.

TABLE 4  
SHARE OF TOTAL LIQUID ASSETS HELD BY EACH TENTH OF THE  
NATION'S SPENDING UNITS WHEN RANKED BY SIZE OF  
ASSET HOLDINGS, EARLY 1947 AND 1946

Spending Units Ranked According to Their Holdings of Liquid Assets*	Percentage of Total Liquid Assets Held:				Amount of Liquid Assets Held by Smallest Holder in Group	
	By Each Tenth		Cumulative			
	1947	1946	1947	1946	1947	1946
Highest tenth.....	60	60	60	60	\$4,250	\$3,400
Second.....	17	17	77	77	2,150	1,800
Third.....	10	10	87	87	1,300	1,100
Fourth.....	6	6	93	93	800	650
Fifth.....	4	4	97	97	450	400
Sixth.....	2	2	99	99	250	200
Seventh.....	1	1	100	100	50	50
Eighth.....	†	†	100	100	0	0
Ninth.....	0	0	100	100	0	0
Lowest tenth.....	0	0	100	100	0	0

\* Includes all U. S. Government bonds, savings accounts, and checking accounts.

† Less than one-half of 1 per cent.

## INCOME CYCLE IN THE LIFE OF FAMILIES AND INDIVIDUALS

W. S. Woytinsky, *Social Security Bulletin*, June, 1943.

A HISTORICAL STUDY of wages reveals characteristic secular trends and short-term variations in the prevailing level of the nominal and real earnings of workers. Wage censuses, as well as the wage statistics and special studies of the Social Security Board, suggest that, at any given time, the average level and the distribution of earnings by intervals vary with the age of the worker. If, however, it were possible to follow the record of real earnings of an average man throughout his whole lifetime—from youth through his working years to retirement and finally to death—his earnings history would show ups and downs very different from those of the recorded trend in prevailing level of wages and different also from the relationships between age and earnings shown in a cross-sectional view in the wage records of the Social Security Board for any given year.

Take, for example, the case of a man who was born in 1865 and died in 1940 at the age of 75. The wage he earned as a boy of 15, in 1880, was probably lower than the average per capita wage at that time. His earnings in 1910, when he was 45 years of age, are likely to have been higher than the prevailing wage before World War I. By 1930, however, it is very probable that his earnings no longer exceeded the average.

Still more complex are the variations in the economic level of an individual, as determined by the economic conditions in the household of which he is a member in childhood, youth, his middle years, and old age.

The relationship between age and income is of prime importance to social security measures which are designed to prevent or alleviate income deficiencies which arise from temporary interruption of current earnings or—at both extremes of the age range—from inability to earn. The following analysis of variations in economic status according to age, both at a given time and over a period of years, was undertaken with a view toward ascertaining the periods in which the incidence of poverty and insecurity is likely to be greatest in relation to the standards prevailing in the population as a whole.

### Income cycle in a worker's life

Cyclical ups and downs in economic level during a worker's life were described for the first time by B. Seeböhm Rowntree. In his study of the life of laborers in the city of York, England, Rowntree summarized his observations as follows:

During early childhood, unless his father is a skilled worker, he [the laborer] probably will be in poverty; this will last until he, or some of his brothers or sisters, begin to earn money and thus augment their father's wage sufficiently to raise the family above the poverty line. Then follows the period during which he is earning money and living under his parents' roof; for some portions of this period he will be earning more money than is required for lodging, food, and clothes. This is his chance to save money. If he has saved enough to pay for furnishing a cottage, this period of comparative prosperity may continue after marriage until he has two or three children, when poverty will again overtake him. This period of poverty will last perhaps for ten years, i. e., until the first child is fourteen years old and begins to earn wages; but if there are more than three children it may last longer. While the children are earning, and before they leave the home to marry, the man enjoys another period of prosperity—possibly, however, only to sink back again into poverty when his children have married and left him, and he himself is too old to work, for his income has never permitted his saving enough for him and his wife to live upon for more than a very short time.

Although, at that time, statistical data were insufficient to check the concept of the income cycle and to measure the importance of the supposed variations in economic level, Rowntree developed an ingenious chart showing the typical ups and downs in the economic condition of a worker as he grew older.

The Rowntree theory appears to be supported by common-sense reasoning. Variations in the economic level of an individual are necessarily determined by variations in the welfare of his family—changes in income and in the needs of the household. In other words, the economic cycle in the life of individuals results from the overlapping of two typical cycles: one in family income, the other in the number of persons dependent upon this income.

A similar cycle was observed by Sydenstricker, King, and Wiehl in a study of the economic status of about 4,000 worker families (including 21,714 persons) in 24 South Carolina cotton-mill villages in 1917. They attempted to measure variations in the economic conditions of worker families in terms of income per "ammaln" (the theoretical consumer unit which represents the "adult male-maintenance" cost). After classifying the canvassed families according to economic level, the variations in economic status at different



stages of family life were analyzed from two points of view—that of the family as a unit and that of the individual at different ages. The authors realized that actually they were not following the history of a group of families or individuals but were trying to construct the economic cycle of a typical family from a cross section of a number of families at different economic stages. They believed, moreover, that this picture would be free from the influence of variants, such as periods of industrial depression or unusual activity with their changes in opportunities for employment, in wage rates, and in the cost of living.

. . . The authors commented as follows on the charts representing these series:

Confining our attention . . . to the graphs for females, it is seen that in the age period 15–19 the income of the families in which they live is relatively high. The modal age at which marriage occurs among women is 18, and soon thereafter their economic status declines, the decline continuing until the age of 40, where a marked improvement is shown. This improvement continues until about the age of 55, when another decline sets in. The variation for males is generally quite similar to that of females except that the decline in economic status in the young adult period does not manifest itself until some five years later, a fact which is accounted for by the older ages at which men marry, the modal age of marriage for males being about 23.

The authors were aware that the result of their analysis could not “be set forth as a generalization applicable to all population classes,” but they believed that “because of the fact that the particular population studied was close to the margin of subsistence, the data lent themselves especially well for illustrating in a very elementary manner the character of the variations in economic status at different stages of family life.”

## *CITY WORKER'S FAMILY BUDGET*

Statement by Ewan Clague before the Western Subcommittee of the Joint Committee on the Economic Report, December 16, 1947.

**I** AM GRATIFIED today to have an opportunity to present for this Committee a study of costs of living prepared by the Bureau of Labor Statistics at the request of another Congressional Committee—the Labor and Federal Security Subcommittee of the Committee on Appropriations of the House of Representatives.

### Budget level of living

Before giving you the actual figures, I should like to describe briefly the level of living which this cost of living study represents. We have endeavored to carry out the will of the Congress in estimating dollar-and-cents totals which are descriptive of a modest but currently adequate United States standard of living. It is not a subsistence budget; it is not a "minimum" budget in the sense in which that term is ordinarily used, but it is far from a luxury budget. It does not represent an "ideal" budget or one based on a few people's notions of what workers *should* have; rather it is based on the kinds of goods and services workers' families in the United States actually select.

Thus, this standard of living is somewhat more liberal than the WPA so-called "maintenance" budget, the last widely-used budget developed by a United States government agency.

In determining the level of living, the Bureau consulted a technical advisory committee of experts in the field of consumption, and the Bureau's staff followed their general recommendations in working out the items that go into the budget.

The first decision made was on the size of family; a family of four persons was selected as a beginning—a man, his wife and two children, a boy age 13 in high school and a girl age 8 in grade school. It was further assumed that the wife is a homemaker who devotes her full attention to the care of the home and the children; she does not work regularly outside the home.

We had originally intended to compile budget figures for other sizes of families—two, three and five persons—but we have not yet been able to do so. We have, however, worked out some approximations of the living costs of these other sizes of families as compared with a family of four persons. Later in this report I shall present the range of figures for the budgets of these other families.

In determining the actual budget for a family of four, the Bureau of Labor Statistics, with the assistance and advice of our Technical Advisory Committee, took two major steps. The first was to discover any scientific standards which had already been worked out by other agencies. For example, the Food and Nutrition Board of the National Research Council has, after careful study, recommended certain standards for food consumption adequate to supply the needed calories and other food elements required to maintain good health. These recommendations were adopted as the basis for the standard for the food requirements in the budget.

The food consumption standard of the National Research Council is of course expressed in technical terms—the amounts of calo-

ries, proteins, minerals, vitamins, and other food elements necessary for health and well-being.

The second step, therefore, was to take the families whose food consumption about met this recommended standard and find out what foods were actually bought by them and in what quantities to make a list of these foods. So, in one sense, the budget is based upon the eating habits of American families, as reported by the families themselves. These family records were obtained in surveys made by the Bureau of Labor Statistics over a period of years, particularly in 1934-36 and again in 1941 and 1944. . . .

You will realize that this is, in fact, a fairly modest food budget, when I tell you that it provides for 6 loaves of bread a week for the family, 12 quarts of milk, or about 3 per person per week, about 20 eggs a week, and about a pound and a half of butter or margarine. These quantities are below the average per capita consumption for the United States as a whole.

When it comes to meat, these families can buy about 9 pounds of all kinds of meat per week or a little over two pounds per person. This is about two-thirds of the average per capita consumption of meat in the United States in 1946, which was 185 pounds. About three-fifths of the budget for meats is made up of what is ordinarily fairly low-cost meat—stews, hamburger, frankfurters, and fish, for example. About one-fourth of the meat allowance provides for roast, round steaks or pork chops, which might be classed as medium-priced meats. When it comes to steak, higher priced chops, poultry and other typically high-cost meats, only 33 pounds a year is provided. This means that there is just about enough for a turkey or some good cut of meat for Thanksgiving, Christmas, and New Year's Day.

Of course, we recognize that every family will shop differently in buying food. Families will buy what they like and know how to cook and will sacrifice elsewhere in the budget if necessary to get the food to which they are accustomed. Accordingly, foods are shown here by groups, with full knowledge that if the family likes beans better than spinach, they will buy beans. We have not tried to tell the American people the precise kinds and quantities of things they ought to eat. This is what families generally *do* eat at the budget level.

### Cost of the food budget

Once this list was determined, items had to be priced in each city in order to determine the dollar-and-cents total required for the food budget. We have shown these totals on an annual basis at

prices prevailing in March, 1946 and June, 1947 for each of the 34 large cities. This pricing was done by our regular agents but covered a longer list of foods than is usual for the Consumers' Price Index. We followed the regular practice of providing detailed specifications for each food priced to make sure that prices obtained were consistent in different cities.

Let me illustrate the cost of various elements in the budget with figures for two cities—Washington, D. C., which is the highest cost city among the 34 for the budget as a whole, and Kansas City, which is one of the lowest cost cities on our list. These two cities do not rank at the top and the bottom for all items in the budget but are typical of high cost cities on the one hand and low cost cities on the other.

The total annual dollar cost of the food budget in Washington, D. C. at March, 1946 prices was \$807. At June, 1947 prices, it cost \$1040. In Kansas City the total annual cost at March, 1946 prices was \$803, and at June, 1947 prices, it was \$1021. Broadly speaking, this food budget in the 34 cities required an expenditure of about \$15.00 a week or 18 cents per meal per person in 1946, and nearly \$20.00 a week or about 24 cents a meal per person in 1947.

Taking the 34 large cities as a group, it can be said that the total cost of food amounted to about one-third of the total cost of goods and services in March, 1946; while in June, 1947, food absorbed 36 or 37 percent of the total. This latter proportion is higher than it was before the war.

## Housing

For housing, the standards which we adopted were those established by the American Public Health Association through its Committee on the Hygiene of Housing and by the Federal Public Housing Administration. In brief, these standards provide for a separate house or apartment for each family; for running water, a private bath and toilet facilities; for central heating equipment in the North and customary heating in the warmer parts of the country, and the necessary fuel for maintaining a temperature of 70 degrees Fahrenheit during the winter months; for certain safety precautions and community facilities required for adequate housing. These standards are described on pages 18 and 19 of the document "City Worker's Family Budget."

In applying this standard, the Bureau has studied the dwellings actually occupied by the workers' families in each city. For pricing purposes, we have used rented houses and apartments only, because we do not as yet have sufficient information on the cost of home

ownership. In view of the rapid expansion of home ownership during the war, this is a point which should be covered in any subsequent studies which may be made. However, the figures we have to present to you today are for rents only. Since the rent of an apartment ordinarily includes heat, light and fuel, and sometimes furniture, we have combined these elements into a total figure for the cost of housing, which is being used in the broadest sense of the term.

On this basis the total cost of housing and home maintenance amounted to \$840 a year, or \$70 a month in Washington, D. C. in March, 1946. It had risen only slightly to \$868 per year, or \$72 per month in June, 1947.

In Kansas City, Missouri, the comparable cost of housing in March, 1946 was \$598 a year, or slightly under \$50 a month. It had risen to about \$51 per month in June, 1947.

Generally speaking, housing took about one-fourth of the budget for goods and services, that is, exclusive of taxes, contributions and insurance. Since rents did not increase as much as the price of other goods and services after the summer of 1946, the proportion of the total budget going to rent was somewhat less in June, 1947 than in March, 1946.

## Clothing

For clothing, and likewise for the items comprising other goods and services in the budget, we were not able to discover any widely accepted objective standards which we could use. Rather than setting up any standards of our own, we chose instead to analyze the expenditure habits of the families in buying these items. In making these studies we found something which seems to us to have the characteristics of a standard—a self-determined standard of the families themselves. I shall try to describe this factor with reference to clothing only, but it was applied also to transportation, household furnishings, and other goods and services in the budget. It is described in more detail in the "City Worker's Family Budget," page 23.

In general, as family incomes increase, the families have a tendency to buy more shoes, dresses, and pieces of furniture, for example. Up to a certain point they may even buy more such items than the percentage rise in family incomes would suggest. But eventually they reach a point beyond which they do not keep on buying so many additional shoes and dresses with each improvement in the family income. Instead, they prefer to buy goods of higher quality, better workmanship and finer appearance, often at higher prices.

This idea can be visualized a little easier when we think of the family incomes declining. If the income goes down, families economize by buying fewer clothes, shoes, furnishings, etc. This decrease in purchases continues with declining income until a certain point is reached. This we might call the "resistance point," since below this point further decreases in family purchases are not as great as decreases in income. Thus, even with lower income the families keep on trying to buy what they regard as an essential number of shoes, dresses, furnishings, etc., although they do try to buy these at lower prices.

It may be asked how families could continue to make these minimum purchases with incomes cut down. The answer is that they buy on credit, go into debt, and use up savings.

We have selected this point on the scale of buying as our standard for groups of clothing and for most other items in the budget other than food and rent. It is the quantity of clothing bought at this point which represents our basic standard for this budget.

After this list of clothing was completed and specifications were carefully defined on the basis of 1941 purchases, prices were then obtained from a representative group of retail stores, including chain and independent stores and mail order outlets. This list of articles included many not ordinarily priced by the Bureau for the Consumers' Price Index.

The total annual cost of clothing in Washington, D. C. amounted to \$409 in March, 1946 and \$462 in June, 1947. Climate is an important factor in differences—making a variation of about \$62 between Minneapolis and Jacksonville, the coldest and warmest cities on our list. In Kansas City, on the other hand, clothing for the family would have cost \$364 in March, 1946 and \$410 in June, 1947.

These dollar amounts do not provide very large clothing replacements in a year. The husband, for example, has a new overcoat once every seven years. The wife can buy two housedresses each year—one for summer and one for winter—but her coat must last four years. Clothes for the children are to some extent hand-me-downs. In the case of shoes, it is necessary to buy three pairs a year for the boy and four pairs for the little girl, but these are necessary because the rapid growth of children of this age soon makes a pair of shoes too small, even if it has not entirely worn out.

### Housefurnishings

The quantities and kinds of housefurnishings purchased were determined in much the same manner as in the case of clothing,

but there are two important facts that you will need to keep in mind in going over the allowances made in the budget as listed on page 6 of the appendix of the Bureau's report. American families do not buy all of their own furniture. Some is given to them by their families and friends. Typically, also, they use furniture for a very long time, and they make purchases within price groups that are suited to their budget.

The second fact to remember is that this family is in its middle years. It has its home and is established. Our records show that, on the average, families at this budget level have a tendency to buy about 13 articles per year. This accounts for the comparatively low rate of purchases per year shown here. For example, take sewing machines. The great majority of American families have sewing machines, as our surveys show, and yet, on the average, only one out of a hundred families buys one in a year.

### Transportation

Transportation covers both local transportation and travel outside of the city. It provides for travel to work, to schools, to shops, to recreation centers and to church; also very infrequent trips "home." For example, it is the American custom to visit parents and other relatives and to attend family funerals. These figures also take into account (for a limited number of families) the travel necessary for a change of residence from one city to another. Transportation as an item in the family budget has increased substantially in importance during the past two decades as cities have expanded and the mobility of the population has increased.

The average cost of transportation varies from city to city but it has not risen very much in the last year. In Washington, D. C. in March, 1946 the total annual cost of transportation in the budget was \$227 while in June, 1947 it was \$250.

In Washington, D. C. the budget specifies an automobile for about 7 out of 10 families. This is the same ratio that we applied to all cities except the three largest—New York, Chicago and Philadelphia—in which only about 4 families in 10 have a car. Typically, the cars owned by these families at the budget level are about eight years old and cost about \$350 (after trade-in allowances) in 1941. At that time, cheap second-hand automobiles were available. This budget does not allow for the replacement of automobiles at the current high prices. It makes an allowance of only \$107 a year toward purchase of a car. If inexpensive cars do not return to the market as current inventories are scrapped, the budget pattern will necessarily be changed in the near future towards a lower per-

centage of automobile owners, with related changes in all the other segments of the budget.

### Medical care

The needs of American families for health services in the form of medical and dental care have not as yet been formulated in any set of standards approved by the medical and dental professions and other informed authorities. It is probable that eventually some such standards will be established. However, in the absence of such standards, the Bureau had to determine from the practices of the families themselves the levels of medical care demanded by the American people. Unfortunately this task is complicated by the fact that poorer families often receive wholly or partly free medical care, depending on their circumstances. Although the budget may provide adequate service for many types of health needs, it is probably well below the level of dental service that would be recommended by the dental profession. Even families with relatively high incomes resist visits to dentists at recommended frequencies.

The budget allowance for medical and dental care in Washington, D. C. amounted to \$173 a year in March, 1946 and \$184 in June, 1947. In Kansas City the figures were \$146 in March, 1946 and \$152 in June, 1947. This amount of money will buy, in addition to other medical and dental services, somewhat more than four doctors' calls, either home or office per year for each member of the family.

Health studies have shown that on the average a person experiences a serious illness or accident about once in four years. Theoretically, in a four-person family, this would mean the disability of one member of the family every year. For the wage earner, workmen's compensation provides some income and usually all medical expenses for disability incurred on the job. Experience varies widely; however, many families are lucky enough to experience good health for many years. Logically, the amounts listed in this budget should be set aside as temporary savings to meet such a contingency. On the other hand, if the family does not do this, there may be no budgetary consequences unless and until a serious illness does strike. Then the family either has to plead for free medical care or go heavily into debt to pay for it. This is one reason why public welfare departments throughout the country find that a considerable proportion of their relief cases are due directly or indirectly to illness.



### Miscellaneous

The budget also has an allowance for miscellaneous purchases which account for approximately one-tenth of the total budget for goods and services. It amounted to \$262 a year in Washington, D. C. in March, 1946 and rose to \$307 in June, 1947. In this miscellaneous group are included expenditures for reading and recreation, which amounted to as much as \$85 in March, 1946 and as much as \$95 in June, 1947. It also includes personal care, like barber and beauty shop services, which amounted to less than \$70. Tobacco amounted to less than \$40 and gifts ranged from \$60 to \$80. The allowance for gifts represents contributions to church and charity as well as the exchange of presents on holidays and birthdays.

### Cost of the budget for goods and services

This completes the list of major items in the budget—food, housing, clothing, housefurnishings, medical care and miscellaneous. In Washington, D. C. at March, 1946 prices the total dollar cost of all these goods and services alone for a family of four persons amounted to \$2718 per year; at June, 1947 prices the cost would be \$3111 per year. On the other hand, in Kansas City the total cost of goods and services amounted to \$2405 as of March, 1946, and \$2739 as of June, 1947.

Thus, over a period of 15 months there was a rise in the cost of goods and services ranging from about \$335 to \$390 for a family of four. This indicates the effect upon family living costs of the rapid rise in prices that began after price controls were removed in the summer and autumn of 1946. As I have already indicated, these figures do not take account of the rise in prices in the last five months, since June, 1947. But even by that time, prices of consumers' goods were at an all-time high, exceeding even the peak levels of 1920. It is important to remember that fact as you consider this budget. It should be judged, not in dollar-and-cents terms at these high prices, but upon the quantities of goods and services that it provides.

### Taxes and other costs

Now I want to consider briefly certain other outlays that families must make—some of them even before these goods and services have been paid for.

One of the most important of these is taxes. These include, for

example, the Federal income taxes, State income taxes and poll taxes. For our purposes here, we did not include property taxes which would fall directly upon the property itself nor sales taxes which are included in the prices paid by the wage earner.

Included also are the deductions required of the wage earner under Social Security. A modest amount of life insurance is provided for the head of the family. Provision is also made for any regular occupational expenses, such as special licenses, uniforms or equipment, etc.

In total, these various supplementary outlays amount to from 8 to 12 percent of the total cost of goods and services. When added to the dollar cost of goods and services mentioned above, the total budget in Washington, D. C. amounted to \$2985 at the prices prevailing in March, 1946, and \$3458 in June, 1947. For Kansas City the corresponding amounts are \$2603 and \$3010.

### **Living costs for families of other sizes**

Up to this point we have been talking only about a family of four persons. I mentioned earlier the fact that the Bureau has not actually studied in detail the corresponding dollar costs of the budgets for families of two, three and five persons. However, on the basis of our studies of expenditures of families of varying size over a long period of years, we can present estimates of such costs. For a family of five in Washington, D. C. we would estimate that the total cost of goods and services would be 14 percent larger than for a four-person family. In June, 1947 it would amount to approximately \$3550, as compared with \$3111 for a four-person family.

For a family of three persons, the corresponding figure in Washington, D. C. would be approximately \$2600, and for a family of two, approximately \$2000. In Kansas City the cost for a family of two would be approximately \$1800 for goods and services.

### **Relation of the budget to family income**

This brings me to the point that I want to discuss in some detail. How typical is this family of four, and how can these budget figures be related to the incomes actually received by American families?

The working population in the cities of the United States is made up of people in families of many different sizes. According to the Census of 1940, about 9 percent of the labor force—including manufacturing as well as all other types of business and employ-

ment—were male heads of four-person families; about 14 percent were heads of two-person families; 12 percent of three-person families; and 11 percent were the heads of families of five or more persons. The remaining 54 percent of all persons in the labor force in 1940 were single individuals, men and women about one-third of whom earned their own livings and lived independently, and women who were heads of families.

The four-person families whose heads comprised 9 percent of the labor force had a variety of compositions. In some cases the mother was the earner in the family because the father was disabled; in other cases, the four-person families were mainly adults, etc. It is impossible because of limited amounts of data to tell precisely what portion of American families in 1940 (and it is less possible, of course, to tell as of 1947 or 1948 because of lack of data) are like those represented by our budget. Since the budget-type four-person family—a father, a mother and two children under 15—is something of an American ideal, it was chosen as the kind of family for whom the budget should first be developed. It is clear, nonetheless, that this budget-type family represents a relatively small portion of the families whose heads are counted in the total working force of the country. Great caution should be used, therefore, in applying this budget to all families or even to all families of four persons.

It must also be clearly remembered that in the four-person family to which this budget applies the husband is probably 35 to 40 years of age. He has been married for perhaps 15 years, or even more, and is, in all likelihood, well advanced in his trade or skill. In other words, the head of this budget family of four will typically have earnings somewhat higher than the average of American wage earners generally. It must be borne in mind also that, as in most American families of this type, there are no earnings by other members of the family except the occasional small amounts brought in by the son for the small community jobs for which he may be paid.

The dollar total of the budget should, therefore, be compared directly only with the total annual income of the family of four of the type I have just described. By total income, I mean, of course, the family income from all sources—not just wages or salaries. Such a comparison is difficult to make because the relatively little income information we have for the United States is not classified by families of different sizes, nor by families of different compositions of income sources. Since the budget represents the total which it would cost the family to live at the indicated level for a year, its total should not be compared with anything but the annual income.

Even when compared with the annual income, caution must be exercised to see that the comparison is properly made with respect to various salary or wage deductions, that is, that total income including income tax and Social Security deductions is compared with the budget totals including these costs.

The budget total should not be compared directly with industrial wages or wage rates. Average weekly earnings for factory workers in the United States in October, 1947, for instance, were more than \$50. This figure, however, varies; it rises and falls with the seasons, and every member of the working force in the United States does not obtain it every week in the year, so that average weekly earnings of \$50 cannot safely be multiplied by 52 weeks to obtain an annual income figure for wage earners.

In order to see more clearly how the total of the budget relates to family incomes, I have made a comparison of total family incomes for families of different sizes for one city—Indianapolis—for which the Bureau of Labor Statistics has income data for 1945. In 1945 in Indianapolis about 18 percent of the families were four-person families and approximately 16 percent of them were families whose father was the head. The percentage of families which was of the budget-type of four-person family cannot be identified but the percentage of this type would be smaller and not unlike the figure for the United States in 1940. Of these families with male heads only about 12 percent had total incomes which were below the cost of the budget for goods and services as priced in March, 1946; about 88 percent were above. These facts are very significant, for they show clearly that the budget is not a luxury budget. A budget total which is less than the income of over three-fourths of American families of this size is a tribute to the production capacity of the American economy.

I am sure that at this point one of the questions which everyone will ask is, "How do the price rises since June, 1946 affect this budget?" It is clear in the report which I have given to you that the budget totals for goods and services increased in Indianapolis from \$2574 in March, 1946 to \$2928 in June, 1947 (and from \$2667 to \$3098 when taxes and other costs are included). There is no information on the way in which family incomes in Indianapolis changed during this period. If they did not change, or changed only slightly, the effect of this increase in living costs is, of course, most obvious; families with "sufficient" incomes before the rise, find themselves below the budget line of "sufficiency" after the rise. Many four-person families of the kind we have been discussing have resources beyond their current incomes—savings, life insurance, etc.—which they can use in aiding to finance the added costs

of living due to price increases. If they do not have such resources and costs rise faster than incomes, they must buy on credit or go into debt to meet their budgets. Great dissatisfaction will come from the groups who do not have sufficient resources to carry them over an extended period and who must choose this latter course.

Actual hardships may develop in other families—the four-person families without a father, the elderly, those who are young and just getting started, and the incapacitated. The situation becomes especially difficult for those who must live on pensions, Social Security incomes or other forms of fixed incomes. As the prices rise more, without offsetting increases in incomes or methods of reducing the costs of the budget, the hardships are greater because the greatest concentration of budget-level families of four is probably in the \$3000-\$4000 income group, even now—at 1947 incomes.

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## THEORY AND PHILOSOPHY OF SOCIAL SECURITY

"Social assistance is a progression from poor relief in the direction of social insurance, while social insurance is a progression from private insurance in the direction of social assistance. . . . If present-day developments have been correctly read, social assistance and social insurance are moving ever closer to one another. As the culmination of a long evolution they may even meet and combine; until, as in New Zealand and Denmark, we can no longer say whether social assistance or social insurance predominate, but only that they possess a national system of social security."

APPROACHES TO SOCIAL SECURITY: AN INTERNATIONAL SURVEY, *International Labour Office, Montreal, 1942, pp. 82-83.*

"There should be neither conflict nor confusion between social security, properly defined, and that type of security which comes from the exercise of personal industry and thrift. While the one represents the basic protection which can safely be provided through Government programs set up by society at large, the other gives the individual the right and the opportunity to raise himself and his family to such level of security as his industry and thrift dictate. They complement each other rather than conflict with each other."

SOCIAL SECURITY, *A Statement by the Social Security Committees of the American Life Convention, Life Insurance Association of America, the National Association of Life Underwriters, 1945, p. 1.*

### INTRODUCTION

THERE IS NO universally accepted definition of social security. Different definitions of the term stress different elements. Some definitions are very broad; other are narrow. The term "social security" is broader than "social insurance" and has been used to cover a wide range of governmental and even private voluntary arrangements. Although the term has been used in such a variety of ways and so broadly as sometimes to lose any value as a term of precise meaning, it does have the ad-

vantage of describing a number of different programs which are related in their general purpose. Since private and public plans are in different stages of evolution in the United States, and there are many variations of these plans throughout the world, social security is a more useful general term to cover all programs both in the United States and abroad.

The term "social security" originated in the United States and has spread throughout the world. Its origin is of interest in indicating the emphasis which its authors attempted to achieve. The late Abraham Epstein, Executive Secretary of the American Association of Social Security, is credited with originating and popularizing the term. Epstein has described the origin of the term in the following words:

"As you will recall, when our Association was first organized in 1927 its name was the American Association for Old Age Security. We hit upon the word 'security' during a walk in Harrisburg with my friend, Emil Frankel, who is now head of the research department of the New Jersey Department of Institutions and Agencies. I believe the credit for the term 'security' really goes to Frankel.

"The change early in 1933 to the American Association for Social Security was entirely my own idea and I had definite reasons for using the words 'social security' rather than 'economic security' or 'social insurance.' Indeed, Dr. I. M. Rubinow definitely opposed the new name as being all too-encompassing and some time later criticized me for this in a speech or article.

"I insisted on the term 'social security' because by that time I had a clear conception of the differences which lay between the concept of social insurance as worked out by Bismarck in Germany and the conception of social protection as elaborated in England. I definitely did not want 'social insurance' because this would give it the German twist of the actuarial insurance concept in terms of compulsory savings which do not justify governmental contributions. I did not want 'economic security' because what I hoped for was not only a form of security for the workers as such but that type of security which would, at



the same time, promote the welfare of society as a whole as I was convinced that no improvement in the conditions of labor can come except as the security of the people as a whole is advanced. In other words, the concept of 'social security' meant to me a clear distinction from the German concept of more or less actuarial social insurance. My aim was definitely in the direction of the concepts underlying the English system of social protection wherein governmental contributions become part and parcel of the program.

"This, perhaps, may help to explain to you why I was burning up in 1935 when our program reversed the concepts which were precious to me.

"I am convinced that the naming of the Perkins-Witte committee 'economic security' was a deliberate attempt to get away from our name, probably because it was thought wiser to disassociate the governmental committee from a private propaganda organization. Naturally, I was quite happy that Congress restored our name which became definitely popular by that time, and I am particularly glad to see that even in Europe today the term 'social security' is very commonly used." \*

The theory and philosophy of social security is not something static. It is not always so explicit that it can be precisely stated nor so separate from the programs themselves that it can be divorced from them. Some of the readings in Chapters IV, V, VI, and VII contain material bearing on the theory and philosophy of the various social security programs. Chapter IX contains readings which also have a direct bearing on the theory and philosophy of social security.

\* Extracts from a letter to Wilbur J. Cohen, March 4, 1941. Copy in Library of Social Security Administration, Washington, D. C.

## THE MEANING OF SOCIAL SECURITY

Maurice Stack, *Journal of Comparative Legislation and International Law*, 1941.

THE EXPRESSION "social security" has, in a very few years, gained universal currency in the United States and the British Commonwealth, and has come to stand for the main objective of the post-war reorganization of society. But its meaning, its denotation and connotation, is still vague. That it speaks to the condition of the masses as a symbol of an end greatly desired has been duly sensed by statesmen. For immediate political purposes the value of a slogan may consist in its wide emotional appeal, and the possibility that individuals will understand it differently, though conformably with their several aspirations, is rather an advantage. For purposes of discussion, on the contrary, agreement on the approximate meaning of essential terms is indispensable. The importance of "social security" as an *idée force* justifies an attempt to clarify its meaning.

### The meaning in present usage

The analysis may start from the constituent words of the expression. "Security" means freedom from worry. "Social," in a political context, refers to political society. So we might suppose that "social security" is the freedom of society itself from worry. Society might worry about aggression from without, but in that context society is called a nation. Society might worry about injustice, ignorance, poverty and disease in its midst, about the less fortunate of its members. It might do so for two reasons: out of sympathy and idealism, and out of fear of the disorder that extensive misery might produce. Our analysis suggests that "social security" means that security from injustice, etc., which society provides for its members, with an eye to its own preservation.

This deductive conclusion may now be compared with that which may be drawn inductively from the actual use of "social security" in instances so important as necessarily to determine its connotation in the public mind. Three such instances will be referred to.

On what was perhaps the first occasion of its use, "social security" caught the notice of a world-wide public as the title of what

President Roosevelt has characterized as the broadest and most enduring measure of the New Deal. In a message addressed to the Congress of the United States on June 8, 1934, President Roosevelt announced that, among the essential objectives of the new programme, representing the permanent aspiration of the people, was security for the individual against the hazards and vicissitudes of life, to be afforded through social insurance:—

“I am working for a sound means which I can recommend to provide at once security against several of the great disturbing factors in life—especially those which relate to unemployment and old age . . . I believe that the funds necessary to provide this insurance should be raised by contributions rather than by an increase in general taxation.”

Besides providing employment security and security for aged workers and for survivors of deceased workers by means of social insurance, the Act gives Federal aid to a wide variety of other services: public assistance to certain categories of needy individuals not yet able to benefit under the insurance systems, maternal and child welfare services, and public health services. It is clear that social security is *par excellence* the correlative of social insurance, but that public assistance complying with certain standards may also be regarded as affording security, albeit of an inferior order; while the health provisions constitute a first instalment of “health security,” the ultimate scope of which is not yet determined. We may conclude then, that in the United States social security means, according to the context, either the security which social insurance provides, or else the whole range of advantages which are afforded by the “social services” in Great Britain.

From the United States “social security” passed to New Zealand, whose Social Security Act, 1938, has presented the world with a new model of legislation combining features of social insurance and social assistance. We shall have occasion to refer later to the detail of this epoch-marking measure.\* At this point it suffices to observe that cash benefits are provided for all citizens in all cases of economic need. Benefit in cash and medical care are granted in virtue of legal rights, but the grant of cash benefits is in most cases subject to a liberally conceived means test. Every citizen must pay the “social security contribution” which is earmarked for financing the scheme, and the grant of benefit is in all cases conditional upon proof of payment of the contributions due.

"Social Security" in New Zealand means, therefore, the assurance enjoyed by every individual that, in every contingency which deprives him of the means of subsistence, he will receive a cash benefit, the amount of which is determined by arithmetical rules, and is related to a minimum standard of living; and that he will receive gratuitously every form of necessary medical care. The fact that the individual must pay a contribution is an accidental, rather than an essential, feature of the scheme.

Comparing the sense of "social security" in the United States and in New Zealand, we may note important differences, as well as similarities. The American Act covers, but incompletely, a very broad field, providing not only benefits for individuals but also protection for communities as such through public health services. The New Zealand Act is concerned solely with benefits for individuals, but for these it makes complete provision, assuring its citizens of a minimum standard of living in all contingencies and caring fully for their health. The American Act establishes two levels of security, the one by insurance, the other by assistance. The New Zealand Act establishes a single level, by an amalgam of insurance and assistance.

From the United States and New Zealand "social security" has passed to Great Britain where it has acquired the status of a war aim, but with a new connotation. Mr. Bevin declared on November 20, 1940, that social security is to be "the main motive of all our national life." He continued:—

"That does not mean that all profits and surpluses would be wiped out, but it does mean that the whole of your economy, finance, organization, science and everything would be directed to social security, but not for a small middle class or for those who may be mere possessors of property, but for the community as a whole."

And Mr. Eden, in the course of a speech on May 29, 1941, referring to President Roosevelt's "four essential human freedoms," equated social security with freedom from want:—

"We have declared that social security must be the first object of our domestic policy after the war. And social security will be our policy abroad not less than at home. It will be our wish to work with others to prevent the starvation of the post-armistice period, the currency disorders throughout Europe and the wide fluctuations of employment, markets and prices which were the cause of so much misery in the twenty years between the two wars. . . . The problem . . . is the establishment of an international economic system capable of translating the technical possibilities of production with

actual plenty and maintaining the whole population in continuous fruitful activity."

For both Mr. Bevin and Mr. Eden, social security is essentially the fruit of a planned national and international economy—not a by-product but the product. Remembering that unemployment was, directly or indirectly, the curse of the pre-war world, and economic disorganization the fount and origin of its troubles, they appear to be thinking of social security primarily in terms of employment. But much more than that could be read into Mr. Bevin's utterance, for he seems to imply that what must be secured is a decent standard of living for all.

In the pre-war "social-service State" of the western world, industry has been a licensed libertine, and as the price of its license, it has been mulcted of social charges. The price at which economic individualism could continue to be tolerated has constantly risen, until industry could no longer meet the demand. Above all, the years of unemployment ruined the prestige of the traditional economic system. The free-grazing capitalist cow ceased to provide enough milk. Mr. Bevin implies that it must be put on a scientific diet so that it can. A further implication is that, if industry is reorganized and managed in the interest of the community as a whole, the attitude of the worker towards it must change correspondingly, as he realizes his responsibility for the dividend of production.

The interest of these utterances of British Ministers lies for our present purpose in the emphasis which they rightly lay on the economic reorganization which is a preliminary condition for the realization of any social policy which could be judged adequate to-day. But they are not helpful in arriving at a working definition of social security. For, on the one hand, the scope of the term, whatever it may be, is certainly wider than that of employment security. And, on the other hand, if the term is to signify the assurance of all the elements which make up a decent standard of living, then its scope is quite unmanageably large.

We shall therefore fall back upon our etymological analysis and our account of American and New Zealand usage, and, somewhat arbitrarily, formulate a tentative definition of "social security." We ought not to waste this term; we ought to reserve it for a new and dynamic conception which is real and operative, but for which an established name is lacking.

Social security then is security which society provides, through appropriate organization, against certain wants to which its members are exposed, either the population at large or important classes. They are essentially wants against which the individual cannot be

expected to provide by his own ability and foresight alone, or even in private association with others. It is characteristic of these wants that they arise out of emergencies, occasions or limited periods of straitened means or extraordinary expenses, and that failure to deal with them has serious consequences both for the individual and for society. In other words, they are wants against which social insurance and social assistance were invented to provide.

It is not every kind of provision, however, that can be considered to afford "security." In order that the individual may enjoy freedom from worry, the provision made must be reasonably adjusted to the want, the individual must be able to rely upon it, and to avail himself of it under conditions which do not affect his self-respect.

Again, security from want means primarily assurance that the want will not occur, and only secondarily assurance that help will be forthcoming if the want arises. Consequently, those institutions whose business it is to provide and promote social security will have, in principle, the twofold function of preventing the occasions of want and, in default of prevention, of affording relief.

The modes of providing social security may be called "social security services" and may be classified under the headings of social insurance and social assistance. We now proceed to discuss the connotation of these two expressions, with respect to the ends and means which they imply.

### **International standards of social insurance and assistance**

Standards, carrying international authority, have been established for social insurance and, incidentally, for social assistance, by the International Labour Conference during the twenty years between the World Wars. The Constitution of the International Labour Organization lists, as examples of necessary objects of labour legislation, the protection of the worker against sickness and against industrial accident and disease, and the provision of invalidity and old-age pensions. When, in 1925, the Conference first addressed itself to the consideration of these topics, it expressed an emphatic preference for social insurance as the method of attaining the objects exemplified above. On later occasions, however, the Conference accorded guarded recognition to social assistance, in cases where social insurance might not be well adapted to provide sufficient protection. It should be remembered that hitherto the Conference has concerned itself primarily with the protection of the working class as such, and the respective merits of social

insurance and social assistance have therefore been judged as means of providing security for the workers and their dependants.

The vast majority of wage earners are dependent for their livelihood solely or mainly on the regular exercise of some trade. When this activity stops temporarily or permanently owing to an industrial accident, sickness, invalidity, old age, premature death or unemployment, the income of the worker and his dependants ceases. This means that the workers live in a state of continual insecurity, which, besides being an evil for them as individuals, is an obstacle to the satisfactory organization of industry and to social peace. Every nation is therefore bound to search for a sound solution of this abiding problem of insecurity in its working population.

Individual thrift, each person trying to accumulate his own reserve against an emergency which deprives him of his wages, is evidently ineffective and wasteful as a method of meeting the essential problem, though it has a permanent place as a means of enhancing the security afforded by collective methods.

All collective methods involve either assistance or insurance or a combination of the two.

Assistance denoted in the past the relief of the poor out of public funds. In the secularized Western World a peculiar stigma was long attached to poverty and incapacity for self-support: the indigent were regarded as quasi-criminals by the State, which treated them repressively. Receipt of poor relief involved loss of civil rights. The honest victim of misfortune and the lazy parasite were not distinguished. The local authorities who administered it were commonly hampered by lack of funds. The relief afforded was scanty, hardly averting starvation. The indigent had, in most countries, no rights, no claim he could enforce in a court of law: relief was purely precarious. As, in any case, relief was not granted until destitution had set in, and as it did not aim at rehabilitation, the recipient tended to remain, if not a pauper, on the margin of destitution. Such were the general characteristics of the poor laws of North-Western and Central Europe and in the United States, at least until the beginning of the present century. In most other parts of the world the situation was worse in that the public authorities had no precise responsibilities for the relief of destitution. This duty was left mainly to the church and private charity, and their efforts, however humane, were sporadic and sometimes misdirected.

No wonder, therefore, that the working class hated the poor law, and tried to avoid recourse to it. Gallant and hopeful efforts were made by wage-earners in the nineteenth century to achieve

security by organizing themselves into friendly societies and sharing their risks. These efforts had only a limited success. The societies were supported only by the thriftier, more prosperous section of the workers. Even so, the contributions they could levy were insufficient to cover the risks they purported to assume; and their technical inadequacies and lack of authority prevented them from making the most effective use of such resources as they had.

The "friendly society" or, more generally, voluntary mutual aid did, however, pave the way for compulsory social insurance. In 1883 Germany extended throughout the Empire the principle of compulsory insurance which, having its origins in the incidents of mediæval guild organization, had long been applied on a small scale. In that year compulsory sickness and maternity insurance was introduced for workers employed in industry and commerce; within the next few years accident insurance and invalidity and old-age insurance were added; the insurances were extended to agricultural workers; and, after an interval, the structure was rounded off in 1911 with survivors' insurance. The German example was followed by Austria, and at a longer distance and less systematically by other European countries.

By the time the International Labour Conference took up the study of social security, the German system, in its forty years of operation, had acquired immense prestige. The Germans were the foremost exponents of the theory and practice of social insurance, and their methods had been extensively imitated. It was natural, therefore, that the principles developed in Imperial and Republican Germany should have a profound, though not as it turned out an exclusive, influence on the social security standards elaborated by the Conference. Here was a system which, expressly designed for the protection of wage-earners, was preventing destitution in most of the emergencies to which they were exposed, was soundly financed, was administered democratically and, in its relations with individuals, was respectful of personal dignity. In comparison, voluntary insurance, morally admirable but generally ineffective, and poor relief, in spite of twentieth-century reforms still discredited, could play only a subsidiary part as instruments of social security, even if they were not to be rendered entirely superfluous.

At its 1925 session the Conference adopted a general resolution on the objects and characteristics of social insurance. The resolution affirmed that "the maintenance of a healthy and vigorous labour supply is of capital importance, not only for wage-earners themselves, but also for industrial communities desirous of developing their productive capacity," that social justice requires "the



effective protection of the workers against the risks endangering their livelihood or that of their families," and that "this protection can best be attained by means of a system of social insurance granting clearly defined rights to the beneficiaries." The resolution went on to note that the social insurance systems already established by several States possessed the following characteristics:

- They applied to the working-class population;
- They covered occupational and non-occupational risks;
- They granted benefits assuring workers and their families of at least a reasonable minimum standard of life;
- They were financed by contributions from employers and workers and from public subsidies;
- These were administered through mutual insurance institutions managed by employers and workers, with or without State participation, and designed to improve the conditions of life of the insured person.

These may be considered as the essential features of social insurance. All or most of them underly the detailed provisions of the Conventions and Recommendations on the several branches of insurance which were framed and adopted by the Conference between 1925 and 1936, and which constitute the international canon of social insurance. The Conference dealt with the different branches in turn, as they became ripe for international regulation, that is to say, when a substantial group of States had established insurance schemes of the kind in question, homogeneous in fundamental matters, and had proved their feasibility and utility. Thus, workmen's compensation, already universal in industrial Europe by 1914, was the first to be legislated for, in 1925; sickness insurance followed in 1927; invalidity, old-age and survivors' insurance in 1933; provision for unemployment in 1934; the maintenance of the pension rights of migrants in 1935; and sickness insurance for seamen in 1936.

The Conventions themselves do not attempt to fix the amounts or rates of social insurance benefits: that was impracticable by reason of the incomparability of currencies, the variety of methods of computing benefits, and the variation of amounts and rates within the national schemes singly: the Recommendations, however, do give indications for fixing the level of benefits. The standards laid down by the Conventions determine with some precision the classes of persons who are to be insured—essentially all employed persons, with a possible exemption for middle-class salaried employees; they prescribe conditions for the grant of benefit, *e.g.* waiting period, qualifying period of insurance, the form of the

benefit, its duration, and the cases in which it may be suspended; they assure the claimant of a right of appeal in case of refusal of benefit, etc.; they specify the parties who are to contribute to the scheme; and, where feasible and appropriate, they require the insurance to be administered by self-governing institutions.

The extent to which the nations of the world had by 1939 instituted the various branches of insurance by legislation conforming in all respects with the fairly high and detailed standards of the Conventions is indicated by the number of countries ratifying the Conventions, for example:

Workmen's Compensation (Accidents) Convention	19
Sickness Insurance (Industry, etc.) Convention	.. 16
Invalidity and Old-age Insurance Conventions	.. 3
Unemployment Provision Convention	..... 4

The small figures for pension insurance and unemployment are explained partly indeed by the fewness of the countries whose laws reach the requisite standard, but partly also by the more recent date of the relevant Conventions, allowing less time for Governments to make up their mind to ratify, at a juncture when threats of aggression already began to preoccupy them. Happily, however, the influence of these Conventions and Recommendations is far from being confined to the States which have ratified or accepted them. The standards laid down by the Conference have unquestionably generated and maintained a pressure on the movement of legislation throughout the world. Schemes possessing the broad characteristics of social insurance, as defined by the 1925 Conference, but differing in details, sometimes of quite minor importance, from the terms of the Conventions, are very numerous. Workmen's compensation, especially, is universal: before the present war it was to be found in 54 countries. Compulsory sickness insurance, extending at least to the wage-earners of industry, operates in some 25 countries, while the number of countries possessing schemes of invalidity, old-age and survivors' insurance applying to the same group is about 15.

Until about 1930, social insurance, with the exception of workmen's compensation, was to be found almost exclusively in Europe, but from then onwards it began to spread to the Western Hemisphere—in Japan it was introduced in 1926. The keen interest in the subject manifested by the American countries had the result that social insurance took a very important place in the work of the special Labour Conference of American States held under the auspices of the International Labour Organization at Santiago de Chile in 1936, and at Havana in 1939. At these Conferences the

whole body of international regulations on social insurance was surveyed, the aspirations and ideas of the American countries on this subject were ascertained, and there emerged a programme of principles and standards in harmony with past experience and present tendencies. The basic characteristics as laid down in 1925 were found valid and reaffirmed. The provisions of the Conventions and Recommendations were codified in consistent form, with certain new features, and presented in a general resolution.

A special resolution on the aims and functions of social insurance, adopted at Havana, expresses succinctly but adequately the essence of social insurance as internationally understood on the eve of the present war. The text is as follows:—

(1) Social insurance schemes, which must make the most rational and economical use of the resources at their disposal, are called upon:

(a) to organize the prevention of such contingencies as sickness, invalidity and industrial accidents, the occurrence of which deprives the worker of his earning capacity and means of subsistence, causes suffering and loss to the worker and his family, and diminishes the productivity of the community;

(b) to restore as quickly and fully as possible the working capacity lost or reduced by reason of sickness or accident, and to facilitate the accomplishment of the function of maternity, essential both biologically and socially;

(c) to supply the means of subsistence necessary in case of cessation or interruption of gainful activity as the result of sickness or accident, temporary or permanent invalidity, unemployment, old age, and premature death of the breadwinner.

(2) As against other methods of collective provision, such as social assistance or schemes of non-contributory pensions, financed entirely out of public funds (which may, however, be the only feasible way of caring for existing cases of need), compulsory social insurance offers substantial advantages:

(a) it associates the workers concerned, from whom a contribution is required, both materially and morally, in the protection of their health and their working capacity;

(b) it implies the establishment of autonomous insurance institutions, dedicated solely to the organization of prevention and the service of medical and cash benefits;

(c) it grants benefits in virtue of definite rights, and thus preserves the self-respect of the beneficiary, who is secured against arbitrary decisions on the part of the body responsible for awarding benefits;

(d) it guarantees the payment of benefits by the assignment of specific resources, and by distributing the cost over long periods in accordance with the rules of actuarial science.

(3) Health security calls for the application of a co-ordinated system of benefits in kind designed to make available to insured persons and their families the resources of modern medicine for the preservation of their health and for the detection and treatment of disease in its earliest stages. For this purpose the insurance scheme must grant the following benefits, in so far as they are not provided by a public medical service which is generally accessible: general medical care; supply of medicines and curative appliances; necessary surgical operations and services of specialists; assistance at confinement; dental treatment; necessary facilities for treatment in hospitals and curative establishments.

While providing efficient care for the individual, insurance schemes must, in the interests of the group which they serve, share in the campaign against diseases which are particularly frequent in the insured population, and which cannot be combated or prevented by medical treatment alone, but call for systematic preventive action combined with medical and social measures. Insurance schemes participate likewise in general preventive measures, and contribute to the improvement of the housing conditions of the insured population.

(4) The cash benefits of insurance schemes secure the maintenance of the insured person and his family in case of incapacity for work resulting from sickness or accident, and in the case of unemployment. In order to increase the economic security of the workers, it is necessary to institute, for the invalid and aged, and for widows and orphans, pensions which take account of the ordinary standard of living and of the family responsibilities of the pensioner, and which may not, in any case, fall below a prescribed minimum.

Here, for the first time, explicit reasons are given for according preference to social insurance over other methods of collective provision. It will be noticed, however, that "social assistance or schemes of non-contributory pensions" are admitted as being a possible, even necessary, means of meeting existing cases of need, that "a public medical service which is generally accessible" is accepted as a substitute for a purely insurance service. It will be further noticed that social insurance is not to pursue a line of intolerant separatism, but, without, of course, losing its identity, is to co-operate in general measures to combat disease and to improve housing. These attitudes are entirely consistent with the

policy hitherto followed by the International Labour Conference, which, in the social insurance Conventions, has included some references to social assistance and non-contributory pensions.

"Social assistance" is the name given in Continental Europe to certain services, established by law and financed from public funds, which have developed out of, or by the side of, the general systems of poor relief. This development began at different times in different countries, but the introduction of the several types of service has tended to follow the same order. Generalizing very broadly, one might say that the movement began in Europe about 1910, and in North America some ten or fifteen years later. The reports, issued in 1909, of the Royal Commission on the Poor Law in Great Britain concluded that the miscellany of paupers aggregated in the workhouses should be classified, and each class dealt with separately and constructively according to its needs: children, aged and infirm, sick, and so on. A similar movement proceeded on the Continent. Whereas the old poor law was essentially a police measure, the new social assistance had in view considerations of justice and decency as well as the interests of society, both immediate and distant. The rump of the old poor law might remain for a residue, but for those classes which could be assisted without danger of encouraging pauperism, which seemed to have a special claim on society, or which, if neglected, would injure the quality of society itself, special schemes of social assistance were established, recourse to which involved no restriction of civil rights, and the grant of which was not conditional upon destitution but upon insufficiency of personal means to meet the particular present need.

The variety of social assistance services is great and increasing. Among the earliest forms to be separated from the original poor-relief system were general medical aid for the indigent and the care of neglected children. Special services are established for the treatment of tuberculosis and venereal diseases, following the older institutions for mental disorders and contagious diseases. The loss of population in the first World War hastened the development of maternal and infant welfare schemes and of family allowances, though the latter, for several reasons, would hardly be included among social assistance services. The world-wide depression of the early 'thirties led, in a dozen countries, to the introduction of special schemes of assistance for the unemployed, partly because the ordinary resources of the poor law were insufficient to meet the extraordinary demands upon them, and partly because the mass of unemployed would not tolerate being treated as paupers. At various dates within the last forty years non-contributory pensions have been introduced—in Denmark, New Zealand, Australia,

France, Great Britain and Ireland, Canada and the United States—for the benefit of the aged, widows with young children, the blind and the invalid. In some countries these pensions are hardly distinguishable from out-door poor relief, while in others they represent an advanced form of social assistance.

### **Social security: the merging of insurance and assistance**

All the "social risks"—incapacity for work, inability to find work, need for medical care, abnormal or even normal family charges—can be covered by either social insurance or social assistance. The segregation of risks of occupational origin is conditional upon the assignment of liability for them to the employer: otherwise there could be no justification for special benefits in respect of these risks. The distribution of the other social risks between insurance and assistance varies from one country to another and in the same country from time to time, but some general tendencies can nevertheless be observed. Short-term cash benefits are commonly provided by insurance, and likewise medical care for the generality of diseases. Social assistance will sometimes be the method of providing pensions, but its most characteristic responsibilities are the treatment of mental illness, tuberculosis, and venereal diseases, and the welfare of mothers and young children—responsibilities of obvious import to society and which may well be discharged by means of non-contributory benefits without fear of generating abuse. The predominant method of affording social security is nevertheless by means of insurance covering the employed class, and so, in industrial countries, the mass of the occupied population. Social assistance plays a subsidiary part, caring for persons who are outside the protection of insurance or supplementing insurance benefits which are insufficient. The discussion in the following paragraphs, however, is not concerned with the sharing of functions between insurance and assistance schemes, but with the tendency of the two types to coalesce.

Social insurance and social assistance are intermediate forms between the extremes of private insurance and poor relief. For the immediate purpose, social insurance may be characterized as the method which provides benefits of a probable value at least equivalent to the personal contributions of the individual entering insurance early in life, and social assistance as that which provides benefits determined by the need of the applicant from whom no specific contribution is required. The thesis which it is desired to illustrate, very briefly, is that social insurance and social assistance

are approaching one another from opposite starting points, each assuming features proper to the other until they meet, as it were, in the centre and merge.

Insurance is certainly the predominant method of affording social security. It has intrinsic methods which are peculiar to it and will always recommend it to governments and peoples. But its grand advantage is that it is financially feasible where assistance is not. By a most fortunate coincidence the bulk of the low income group is comprised within the class of wage-earners, from whom contributions can easily be collected through the employer, while the latter can be made to contribute as well. This ready source of revenue has always been the envy of social assistance.

But social insurance has long been subject to limitations, which are the defects of its qualities and have been thought to be inherent in it. These limitations consist in the restriction of its scope to employed persons and in the more or less close dependence of the benefits of an individual upon the contributions credited to him: they are, however, being transcended.

Since the world economic depression, wherein the savings of countless persons disappeared, social insurance in several countries has begun to reach out to the independent workers, who have come to desire the protection of pension insurance especially. Among the most recent instances besides the voluntary scheme for "black coats" in Great Britain, are the extension of compulsory pension insurance to independent craftsmen in Germany (1939), compulsory pension insurance for craftsmen and peasants in Bulgaria (1941), and the obligation (Uruguay, 1941) or option (Brazil) for employers to insure themselves under the same pension scheme as their employees. The extension of social insurance beyond the ranks of employed persons encounters the new problem of collecting contributions, before which most countries still hesitate. Sweden, Finland and, using other methods, Denmark have adopted social insurance schemes truly national in scope, and covering the whole population. New Zealand, traveling by a different road, has attained the same objective. The Social Security Board of the United States is also considering the possibility of including independent workers in the Federal pension insurance scheme. There are signs, therefore, that the scope of social insurance is extending towards universality, and this tendency is likely to be strengthened in the economic circumstances of the post-war world.

The strict proportionality of benefits to contributions which is the rule in private insurance has been mitigated in social insurance from its very inception by consideration for the family responsibilities of insured persons and by the principle that the cash benefits

of insurance should, as far as possible, be sufficient in themselves for maintenance. It is the application of these policies which confer upon social insurance benefits their distinctive character. The fact that the employer and, especially in pension insurance, the State are contributors as well as the insured person makes it possible to augment in varying amounts, according to the presumptive need of the beneficiary, the benefits to which his own contributions would equitably entitle him. In the British health insurance scheme, it would seem, the individual is credited personally, at least in theory, with his employer's contribution as well as his own, but in other countries part of the employer's contribution is used to supplement the benefits of the needier individuals. The State subsidy has always been explicitly devoted to the guarantee of a minimum benefit or used to help in some other way the needier cases. The means test, involving inquiries into the affairs of the claimant, is quite foreign to the conception of social insurance. The principle that public subsidies should not be paid to individuals except in need is represented in social insurance by the rule, commonly observed, that the State subsidizes only those insurance schemes the scope of which is confined to manual workers or to workers of limited earnings, that is to say, to classes whose needs can be inferred without investigation. Nevertheless, a few instances are to be found of means tests (though with liberal exemptions) within the framework of pension insurance, notably in Sweden, Belgium and France—when the insured person demands some "uncovenanted" pension, to which his own or the joint contribution would not in equity entitle him.

Benefits in respect of family responsibilities and guaranteed minimum benefits are clearly in the nature of assistance. Such benefits have shown a constant tendency to increase in importance in comparison with those which are proportional to the rate and duration of the contributions of the insured or of the joint contributions. We find in most countries family medical benefit, dependants' supplements added to periodical payments in respect of sickness, invalidity, old age, accident and unemployment, not to speak of the purely family nature of maternity benefits, survivors' pensions and, finally, of family allowances. Dependants' supplements have appeared even in workmen's compensation schemes of the employer's liability type.

It is in pension insurance that the assistance element bulks most largely, for without it the scheme cannot provide adequate pensions until many years have elapsed. When the scheme is introduced, there is the problem of those who have already attained the pensionable age, and for whom pure social assistance through



non-contributory pensions is the only remedy, and there is also the problem of those who are elderly, whose contributions cannot build up an adequate pension in the years of activity that remain to them, and for whom a supplementary pension must be provided, either from a State subsidy or by drawing on the employers' contributions. If the scope of the scheme is limited, say, to wage-earners, there will be a small but continuous influx of elderly entrants who will require subsidizing.

One might suppose, however, that a pension insurance scheme, national in its scope, would, after the elimination of the original elderly group, become self-supporting in the sense that each individual would contribute in the course of his life enough to buy him an adequate annuity. In a national scheme, however, there are no employers' contributions, and it might not be expedient to require the lowest wage group to pay entirely for its pensions. A pension insurance scheme applied to the whole population, or even one applied to the whole employed class, which was designed within a generation to provide benefits sufficient for maintenance by accumulating contributions would build up reserves of unmanageable magnitude. The question then arises how can a nation save for its old age? What is true for a limited group may not be so for a whole community which cannot store up claims against itself. A little reflection shows that the ability of a nation to bear increasing pension charges depends solely on its increasing productivity. It would be necessary, in order that the national scheme should be able to fulfil its engagements in fact as well as in form, that its contribution reserves should be invested in such a way as to yield increased output corresponding to the expected interest thereon. To attain this result may not be beyond the wit of men, but in our economy and with our experience we ought not to rely upon attaining it. Pensions built up on the accumulation system are promised as a specified amount of money, not of purchasing power. But our epoch has seen violent fluctuations, on the whole upwards, in the level of prices so that there can be no assurance that a pension laboriously built up over a lifetime will not have lost its purchasing power when the time comes to draw it. Another reason for prudence in accepting distant pension obligations is the likelihood of a considerable increase in the number of aged persons in the population. These were among the considerations which led Great Britain to finance contributory pensions, from the outset, on a modified assessment system, and Sweden (1935) and the United States (1939) to substitute that system for the accumulation or reserve system on which their pension insurance was originally designed to work. The death blow has been dealt to the accumu-

lation system, in Europe at all events, by the disappearance into the smoke of battle of the reserves of pension insurance largely invested in government securities. No wonder Germany has now declared that such a system was a mistake (however convenient to the government at the time) and is to be abandoned, while France abandoned it a few months ago.

It might be concluded that national or quasi-national pension insurance schemes would therefore have to content themselves with uniform pensions, financed on the assessment system. This policy, first adopted in Great Britain, is being followed in Spain (1939) and Bulgaria (1941). But uniform pensions can at best guarantee a minimum of subsistence, and take no account of the differences in standards of living which will always persist in some degree. It is still possible to hope that scientific progress will in the future, as in the past, bring about a secular increase in productivity. So a pension insurance scheme may still leave room for a modest growth of the average pension over a long period of years. Such a compromise between the uniform pension and the annuity purchased with accumulated contributions is to be found, for example, in Sweden and the United States. In Chile, where the currency for many years has shown a constant tendency to depreciate and which had a quasi-national old-age pension insurance scheme, the government is proposing to abolish the accumulation system of old-age pensions, and to introduce invalidity, old-age and survivors' pensions, the basis and main part of which, financed out of general taxation, will be related to the level of wages recently earned by the pensioner on the one hand, and to the current general level of wages on the other, in such a way as to guarantee a minimum amount of purchasing power. This original proposal seems worthy of serious attention in other countries.

A pension insurance scheme which approaches universality in its scope, whose essential benefit is on a subsistence level, which is largely financed by a State subsidy, and which may even require a means test for certain supplements, comes to resemble very closely a social assistance scheme. Of this type is the British contributory pension scheme and the social security scheme of New Zealand. It is significant that both these schemes have developed out of old-established schemes of non-contributory pensions. The rising cost of non-contributory pensions ultimately compels a country to find new means of financing them and so they are converted into contributory pensions. The conversion, however, was carried out in a very different manner in the two countries respectively.

The British scheme abolished the means test, retained, though at its maximum, the old rate of pension and imposed a joint con-

tribution sufficient ultimately to finance the pension entirely in the case of young entrants, the huge deficit in respect of older entrants being borne by the State; but now the means test has been reintroduced in connexion with the guarantee of a subsistence pension.

In the New Zealand scheme pensions are but part of a grandiose complex of benefits for the whole population. Old-age pensions were introduced in 1898, and widows' pensions in 1911, while in the last few years unemployment assistance and family allowances have been added; all these benefits were on a non-contributory basis. But in 1930, in order to finance unemployment assistance, a special national tax was instituted. The next and final step was to group all these non-contributory benefits together, and to add sickness benefit, an "emergency" benefit to meet all cases not otherwise provided for, and a complete medical service, so constituting a comprehensive system of social security. To finance the new benefits added in 1938, the special national tax of 8d. in the £ on all incomes was increased to 1s, but the existing charge on the national budget was maintained. Most of the cash benefits are granted subject to a means test, but with very ample exemptions. The contribution does not appear to bear any theoretical relation to the benefits, but it is obvious that, except for the well-to-do who might be affected by the means test, every contributor is likely to get more than a full return for his contribution.

The trend in social security thus seems to be towards a closer blending of social assistance with social insurance, in a compound scheme exhibiting marked features of either element; it is likely to be reinforced in the circumstances of the post-war world. Such a scheme, approaching universality in its scope, levies contributions as a financial expedient affording a sure source of revenue, and also as a public lesson in financial responsibility, and it is concerned to provide benefits, related perhaps in some degree to the contribution of the individual, but mainly determined by a criterion of social adequacy, which takes account of personal need.

## WHAT TO EXPECT OF SOCIAL SECURITY

Edwin E. Witte, *American Economic Review*, March, 1944.

SOCIAL SECURITY is today an immensely popular term. Everybody in public life is for social security and nearly all discussion of the subject concerns improvement and extension. It remains, how-

ever, a term of uncertain meaning, which conveys very different ideas to different people. To many Americans it means nothing more than old age pension; to others, it is a socialized form of insurance protection against hazards whose normal consequences are poverty and dependency; to still others, a governmentally guaranteed minimum income in all contingencies of life; to others, again, an economic system which operates to afford plenty for everybody. These are only some of the concepts of social security widely prevalent in this country. This lack of precise meaning to some extent accounts for the popularity of social security. Social security is in fact more of an ideal than an institution or group of institutions. Yet if we are to intelligently discuss the place which social security should have in postwar America or how social security can be improved, we need to give an institutional content to the term.

What is called "social security" differs from country to country. Social security is a part of the total institutional pattern of the nations in which it exists and is most soundly conceived in conformity with such total patterns. It is something different in totalitarian countries like Germany and Japan from what it is in democratic countries like the United States and the nations of the British Commonwealth, and something else still in Soviet Russia. The existing governmental structure, the economic system which prevails, the stage of economic development attained, the history and traditions of the nation will all have their influence upon the social security institutions of the country and even upon what is considered to be social security. So will such social and economic factors as the state of family life, the economic position of women, the mobility of labor, the extent of union organization, and above all, the nation's economic productivity. This holds true also for psychological factors such as the public attitude toward government, the degree to which security is valued as contrasted with the opportunities presented by risks, and the prevailing concepts of progress.

In this paper I shall use the term social security as it was defined in the report on *Approaches to Social Security*, published in 1942 by the International Labour Office. This includes within the term both social assistance and social insurance and also social security systems. Social security systems represent an integration of social insurance and social assistance. Social assistance stems from the old institution of poor relief and "expresses the obligation of the community toward its needy members." It includes noncontributory pensions to the aged and to invalids (the American old age assistance and aid to the blind), mothers' pensions (officially called

"aid to dependent children" in this country), unemployment assistance, medical assistance, rehabilitation of the disabled, and general public assistance (or relief). It is financed from general tax sources and is free to the beneficiaries. Social insurance, in contrast, "is situated between social assistance and commercial insurance." It is established by law and serves social purposes, but utilizes insurance principles. Today it includes workmen's compensation (which is known as industrial accident insurance in continental Europe), sickness (or health) insurance, old age, invalidity and survivors' insurance, and unemployment insurance (or compensation).

As thus defined, social security is broader than social insurance, although the latter term is sometimes applied to the entire scope of social security. It is narrower than the English social services and the Scandinavian social policy, which include, besides the social security institutions which have been enumerated, such other governmental services as public education, public health and medical services, public housing developments, minimum wage legislation, and still other publicly financed and directed programs for the benefit of people in low income groups. It is also narrower than economic security, which includes in addition to social security many other institutions whose objective is economic stability and an assurance of a satisfying minimum income for everybody.

As I conceive social security, it is oriented toward family and individual welfare rather than the functioning of the economic system. It is social in the sense that it is provided for by law and is compulsory in at least some of its aspects. It is usually administered by public officials and is always strictly controlled by the government. Its approach, however, is from the point of view of the welfare of the family and the individual rather than that of the nation as an entity or of society in the abstract. Its concern is with the immediate hazards confronting the family and the individual, or, rather, with their economic consequences, not with ultimate causes, as they appear to an economist.

Such a concept of social security is consistent with the totality of our existing institutions and calls for no revolutionary changes. Far from being inconsistent with our free enterprise system and our democratic government, it is a bulwark to these basic institutions, vitally necessary, under present conditions, for their preservation and continued successful functioning. Such a concept of social security is also in accord with the past history of the development of social security in the United States and, more specifically, with the statements regarding social security which were made by the President, the Congressional committees in charge of the

legislation, and the Committee on Economic Security, which drafted the measure, at the time of the enactment of the Social Security Act.

In its present connotation, the term social security does not seem to go back further than 1933, when the late Dr. Abraham Epstein expanded his Association for Old Age Security into the Association for Social Security. It did not come into general use until the House Ways and Means Committee, in order to emphasize that the measure it recommended was not the Administration's Economic Security bill, changed its title to the Social Security Act. As a group of institutions, however, social security goes back to the earliest Colonial days. Social security in this country, as in England, had its beginnings in the Elizabethan Poor Law, which was brought here by the earliest settlers. Its subsequent development, however, was quite different.

England was far ahead of us in becoming industrialized. Economic conditions there were such as to bring home to public consciousness much earlier than here, that unemployment and poverty are not always the fault of the unemployed and the poor. England's racial unity and its unitary government facilitated earlier action and a more orderly development of social security than in the United States. This has often been noted, but it is less familiar that the differing history, concepts, and conditions also account for most of the differences in the present content of social security legislation in the two countries. We have never had a Poor Law Commission or a Beveridge Report in the United States . . . The major social security legislation of England had its origin in dissatisfaction with the poor law but had the same objective of relieving distress. Social insurance developed as a substitute for poor relief, and retains many aspects to this day which plainly point to this origin. Completely absent in the development of social security in England has been the police power approach, which regards social insurance as a form of labor legislation, justified as a regulation of employment relations in the interests of the public welfare.

In contrast, social security in the United States has stemmed from labor legislation quite as much as from poor relief. Workmen's compensation developed as labor legislation, without even a realization at the time that it is social insurance. Unemployment compensation and health insurance were both first advocated as logical complements of workmen's compensation. For twenty years before the American Association for Social Security was organized, the American Association for Labor Legislation championed social insurance measures and cited the police power

as their legal justification. It was not until the great depression had set in that the point of view that unemployment insurance should serve primarily as a relief institution had any popularity in this country. No unemployment insurance law was enacted until that time, but the legislation we got was something between the British unemployment insurance and American workmen's compensation. Similarly, health insurance proposals in this country have departed far from European models.

The great depression furnished the impetus for the swift advances in social security which we made in the thirties. But it was less dissatisfaction with the disgraceful administration of poor relief than sheer need for financial assistance to the local and state governments which brought the national government into the social security picture. By this time, the national government again does not concern itself with relief in any manner, and our relief laws and their administration have reverted pretty much to their predepression status. In many other respects also the depression now seems to have produced far less change in relation to social security than appeared to be the case a few years ago. Social security is approved of by everybody and there is very general agreement that it should be expanded and "liberalized." But there is very little interest in social security and a great lack of understanding as to what it is all about. Particularly, there is almost no appreciation on the part of the prospective beneficiaries that social security involves costs as well as benefits, while to businessmen social security is nothing more than a matter of taxes. The word insurance in the terms social insurance, old age and survivors' insurance, and unemployment insurance is one of the reasons for the popularity of these institutions in this country where everybody has an insurance policy. However, confusion and doubt are now being created by the view that social insurance is not "insurance" at all. Americans generally still regard private enterprise, initiative, and thrift as the best assurance of security. Unlike the British and despite all the gibes about the WPA, they believe that work is the best cure for unemployment and that government should provide employment when private industry cannot do so. They distrust their government, and, particularly, the "Washington bureaucrats." Yet it is a certainty that if serious trouble develops they, almost as one man, will turn to their government to help them, and it will be the national government to which they will turn.

These are the broad outlines of the present American concepts and attitudes in relation to social security. This is the foundation now available on which we can and must build. This is not a very secure foundation—and not so much because our social security

legislation is defective in content or poor in administration as a consequence of confused thinking about social security. This confusion is largely attributable to the absence of any precise concept of what the term means and of all popular understanding as to the values and limitations of the institutions which are described by this term.

It is the thesis of this paper that to improve this foundation it is essential, at the stage of the evolution of social security in which we now are in this country, that we give to this term the meaning the International Labour Office has adopted. Further, we need to make the American public understand that the objectives and values of social security are limited but very necessary for the preservation of our institutions and the welfare of all our people.

This requires giving social security a narrower meaning than "freedom from want." Freedom from want cannot be guaranteed through social security measures. The possibilities of providing even a minimum satisfying income to all people and in all contingencies of life depend first of all upon total production. At this time when we are producing so prodigiously for war purposes, it may appear that production does not constitute any limitation to the attainment of freedom from want. But it remains undetermined whether we can produce for purposes of peace as much as we are now producing for purposes of war. Personally, it is my view that full employment, as we now know it, is too costly to be a practical objective for peacetime, although I believe that we can and must organize our economy so that we will have a much greater production than we had prior to the war, and an ever increasing production. This is an essential for the attainment of freedom from want. Most economic goods and services are so ephemeral that production must be continuous; moreover, what is a minimum satisfying income and even freedom from want is variable and in a progressive society will ever rise. Social security cannot assure the high and rising level of production which is essential to the attainment of such an objective. It may even be organized in such a way as to hold back production. It is my belief that it can be made a factor promoting production. It cannot become a substitute for industry, initiative, and invention, or for the proper organization and controls of our economic system.

This does not mean that social security does not matter, nor that social security proposals should be judged primarily on the basis of their probable effects upon the functioning of the economic system. It is my view that the economic planners who look upon social security as one means for reshaping the economic system towards ends they deem desirable are a greater menace to the im-



provement of our social security institutions than are the Townsends—and, as I shall develop later, I do not underrate the still present dangers from that source. It is a perversion of the concept of social security to look upon it as being primarily designed for the control of the business cycle, to insure full employment, or to redistribute income and purchasing power. Its effects in these respects should be considered and discussed, but should not overshadow its major objective—the protection of the individual and the family against the immediate economic hazards confronting them. Economists, interested as they are in the functioning of the economic system as a whole, are prone to look upon this objective as secondary; and perhaps it is, but it surely is not unimportant. Without maintenance of individuals and families in all contingencies of life, the hope of fundamental remedies for economic ills is but illusory.

It is very certain also that the economic system will never function so as to render unnecessary any social security measures. There is want and suffering even at this time of abnormally great production. Full employment and maximum production do not keep people from growing old and do not guarantee that many old people will not be in want and from reasons which are not their fault. There is some unemployment even in wartime and everyone knows that, under the most favorable circumstances, there will be a much greater volume of unemployment in the transition period. Sickness and invalidity have little relation to employment conditions and industrial accidents actually increase with increases in employment. Regardless of the functioning of the economic system, many breadwinners will die young and when this happens their surviving small children usually will be in poverty; and we cannot afford to overlook the fact that the great majority of all our children, upon whom depends the future of our country, are in the homes of the poor. Finally, it needs to be said, lest we overlook it in this connection, that this war is not being fought to establish in this country the Nazi concept that those who cannot contribute to the security of the state and are a drain upon its resources deserve no consideration. The care given dependents is one measure of the civilization attained and we mean to continue as a civilized and Christian country.

Equally unsound is the view that social security is principally a tax problem. This appears to be the predominant view in Congress and may well produce even greater havoc in the future than it has already created. In part, at least, this view has developed because in the United States we had to label the employer and employee contributions to the social insurance funds as "pay roll

taxes"—which has not been done in any other country. The attitude toward taxes in this country has always been antagonistic, with an almost complete failure to appreciate that in its entirety it is a two-way, not a one-way, process. Social security is not, at least mainly, an additional cost to society, but an orderly redistribution of costs which the American people have to bear in any event. Even from the point of view of the government's expenditures alone, the costs of a well-conceived social security system will be offset to a very considerable extent by reduced relief and salvage costs.

It is equally, if not more, dangerous that the largest groups of prospective beneficiaries think of social security in terms of benefits only and that this has also been the attitude of most of its champions in the ranks of the academicians and social workers. This is again a typically American point of view. Our economic growth has been so great that we have not had to think very much about where the money is coming from. America is the land of plenty and there is widespread belief that we can do anything. This is so infectious that it is not unnatural that even people who thoroughly understand what costs are involved, generally are willing to take the chance of a possible financial breakdown in the future to get improvements now about whose costs they do not dare to talk.

The greatest danger in this sort of an attitude lies not in the possibility that present commitments may not be fulfilled, but in amendments which will prove ruinous. The view that only benefits matter and that further costs can be ignored is an invitation to the increase of benefits beyond all present economic possibilities. It is not without significance that Dr. Townsend now uses "pay as you go" as one of his slogans. Because the old people are at this time more interested in winning the war than in the mirage of \$200 per month pensions, there is a general belief that all danger of runaway costs is past. It is a safe prediction, however, that should the end of the war be followed by the widespread loss of jobs by the older workers, a strong demand for something like the Townsend Plan will again arise. While the Townsend Plan will never become law, there is a decided possibility that ere long we may have a "Baby Townsend Plan"—and babies usually grow. As Elizabeth Brandeis has put it, in a still unpublished article: social security properly conceived is more of "a net to catch those that fall" than "an overly soft feather bed." But there is danger that it may be converted into an institution which "may demoralize not only workers, but statesmen, business leaders, and the public." As the Romans discovered long ago, "it is relatively easy to provide

'bread and circuses' for the populace," but once we adopt that type of social security there is no stopping point.

I view with similar concern the playing down of the "insurance" in social insurance, which has developed since the passage of the Social Security Act. It is understandable that insurance company executives and actuaries should look upon private insurance as the only kind of insurance meriting the esteem and confidence which Americans attach to that term. It is even clearer why certain politicians see political advantages in creating distrust of the government's handling of the social security funds. It would be extremely unfortunate, however, if they persuaded the workers that their funds were not safe with the government. Equally dangerous is any weakening of the contributory principle. The several forms of social insurance differ from private insurance, but not more so than do the several kinds of private insurance from each other. It is anomalous, to say the least, that the very people who justified reducing the payroll tax rates by denouncing reserves as having no place in social insurance also were responsible for the provisions in the Social Security Act Amendments of 1939 limiting benefits to currently insured and fully insured persons. These are clearly concepts taken from private insurance, and they are likely to work out in such a way that many millions of war workers will get nothing at all for their social security deductions from payrolls.

I also do not accept the view that social security is nothing more than a relief institution. I include social assistance within the concept of social security. But I object to making of social insurance but another form of relief. In the English environment and with the background of the history of social security in England, the concept that social insurance is a substitute for poor relief may be adequate. In the United States, where social security developed from labor legislation as well as from relief, there is still value in retaining something of the police power approach, although it alone also is not adequate. It is a defeatist attitude to say that, because the hazards against whose consequences social insurance is designed to provide protection cannot be wholly prevented, no attempt should be made to utilize it for preventive purposes. Such a position is illogical and is bound to provoke much unnecessary opposition to proposals for the improvement of social security. It is also to be noted that the world over, social security is increasingly coming to mean not merely cash payments but also social services with a preventive objective.

This entire paper, I know, sounds like a jeremiad. It is not so intended. There are trends affecting social security that I view with alarm. I am particularly concerned because there is such hazy

thinking about social security and what may properly be expected from it. But I do not despair of social security; and I have not lost my faith in social security.

We have made great progress toward social security under conditions none too favorable. Unlike most of the other Allied Nations we have made no legislative gains since the war began, but it is not unlikely that the end of the war will afford an opportunity for advances as great as those of the thirties.

Advances in social security have been made, above all else, because all peoples long for security in a world that in their own experience has been very insecure. The quest for social security is but one manifestation of a much broader phenomenon of the present day and age, which includes all of the "four freedoms" and beyond these a desire for a secure world, and for the security of life itself. In the midst of great insecurity, security has come to be valued, perhaps, even more than opportunity. The war has very greatly increased this longing, making "security for all" almost as attractive a slogan as was "making the world safe for democracy" in the last war. In this country this feeling has not to date had any important repercussion on social security. It is likely, however, to result in a much stronger demand than we now have for a better social security as the final victory comes in sight. That demand is likely to become well-nigh irresistible should the victory be followed by widespread unemployment and suffering during the period of military and economic demobilization.

## SOCIAL SECURITY THROUGH SOCIAL INSURANCE

Abraham Epstein, *Insecurity, A Challenge to America*, Chapter II. New York: Random House, Inc., 1938.

THE INDUSTRIAL revolution has forced millions of workers, formerly engaged in agriculture and other independent occupations, to depend upon their daily jobs for their daily bread. So long as the wage-earner is able to hold his job, he somehow manages to subsist; but when through either accident, sickness, invalidity, unemployment or old age he is deprived of work, he frequently becomes helpless and destitute. Try as he may to provide for a rainy day through friendly societies, trade unions, savings and vol-

untary insurance, he finds that there are altogether too many rainy days.

Social insurance is the method most widely adopted for the attainment of some security against the poverty and destitution inherent in our industrial civilization. There is not an important nation in the world to-day without one or more forms of social insurance—a fact which speaks for its popularity and general approval. The principles of social insurance are to-day accepted and practiced by both the vanquished and the victorious nations, by republics, monarchies and dictatorships, by Communist Russia and Fascist Italy. Whatever be the criticisms of the practical application of one or two branches of social insurance in a few nations—and most of these criticisms are based on ignorance and prejudice—there is universal agreement that the method of social insurance has so far proved the most effective in meeting the problems of insecurity.

### The meaning of social insurance

The principle of insurance dates back to medieval times when merchants and shipowners devised it as a method of protecting themselves against shipwreck, piracy and other perils of the sea. Through insurance it is possible to eliminate the individual risk because the individual loss, no matter how great, is distributed among many persons, all of whom cannot possibly suffer the same loss at the same time. A \$10,000 house can be insured say for \$40 a year because accumulated statistics show that only one house in 250 is likely to burn each year. The same principle applies to life insurance, burglary insurance and the like. Through insurance a collective responsibility is established for the individual loss.

The advantages of insurance in general are so widely recognized in the United States that it is superfluous to argue them here. It already extends into every branch of business and into every relation of life. It is universally acknowledged nowadays that it is worth-while to pay a small sum of money in advance in order to have security against some future emergency. The immediate small financial loss involved in the payment of an insurance premium is more than recompensed by the freedom from fear of a possible large financial loss. Fire insurance is indispensable to the owner of a building; indeed, he is practically compelled to insure since no credit will be extended on his building unless the risk of fire is covered by insurance. Automobile accident insurance has become common because it pays to be protected against a risk which may jeopardize one's capital and even one's freedom. The assurance

that our dependents will not be left completely destitute in case of our death makes those of us who are able to do so willing to pay even the exorbitant premium and high overhead costs of private insurance companies. In short, it is admittedly advantageous to part with small sums of money regularly to secure freedom from the continuous apprehensions of business and personal losses.

Social insurance aims at the maximum application of the principle of insurance in the protection of workers against persistent insecurities. The elemental principle of the distribution of the risk is given its widest scope in social insurance. By spreading the risk to the entire working population of a state or nation instead of limiting it to a selected group of policy-holders, as in private insurance, the insurance principle is carried to its logical limit. A system of compulsory social insurance may extend protection to the entire working population without any of the restrictions inherent in private insurance. By the spread of the risk to its logical maximum, by the inherent low overhead and by distribution of the costs upon all elements, social insurance not only brings protection within the reach of those who need it most, but also makes possible the assurance of a minimum standard of living for all.

Social insurance may, therefore, be described as a relatively inexpensive form of insurance devised by the state to guarantee the wage-earner and his dependents a minimum of income during periods when, through forces largely beyond his control, his earnings are impaired or cut off. It aims to secure the worker and his family against the economic emergencies resulting from the temporary or permanent loss of a job through unemployment, sickness, invalidity or old age, and against those other emergencies which arise from the death of the bread-winner, the illness and burial of a member of the family, the birth of a child, or the burden of supporting a large family. It tries to establish a minimum of economic sustenance below which no one shall fall. At the same time, it endeavors to eradicate much of our poverty and destitution by prevention rather than relief and alms. It strives to dam at their origin the springs feeding the sea of destitution. It attempts to substitute self help and social justice for the demoralization incident on public and private charity.

Social insurance is clearly distinguished from poor relief. Under public relief an appeal for benefits can be made only in the case of indigency. Under social insurance the claim is founded upon the right to benefits that is preexistent to the emergency. The poor law seeks to make its relief degrading and obnoxious in order to discourage people from applying. Social insurance, on the contrary, seeks to establish self-respect and independence through

granting the insured a legal right to benefit. Public relief aims only to provide a bare minimum of subsistence for the indigent. Social insurance seeks to establish an adequate national minimum standard of life. Poor relief merely perpetuates existing economic injustices. Social insurance strives to achieve a more equitable distribution of the national wealth. The payment of benefit under social insurance does not depend upon the arbitrary judgment of the administrative officials as in poor relief, but on the sole question whether the risk covered by the insurance system has actually arisen. Once the emergency insured against has actually occurred, the benefits are granted as a matter of course and of right.

In striving for economic security social insurance does not pretend to create either equality of opportunity or a completely equitable distribution of national wealth. Advocates of social insurance do not propose it as a panacea for all our social ills. Even its perfect functioning would not solve *all* our social and economic problems. If, however, it ameliorates no more than 70 or 80 percent of the existing poverty, its achievements are more than worth-while. Being realists, the advocates of social insurance do not look for perfection in this imperfect world. They believe that much of our present destitution can be eliminated; and that men, women and children can be saved from hunger and cold without waiting for a complete reformation of the present industrial system.

### Origins of social insurance

The origins of social insurance are difficult to trace. Mutual aid societies were in existence in the twelfth century and some of the principles of social insurance found expression in the guild benefit societies. As stated by Dr. Rubinow: "No one human brain was ever big enough to create out of itself a social institution of such tremendous import." The reasons for the rapid development of social insurance in the last fifty years are not far to seek. It has become as indispensable to the proper functioning of our industrial civilization as is the lubrication of machinery to efficient operation. As the workers in European countries became conscious of their plight under the industrial system, they were forced to organize in order to fight for their rights to life and security. The beginnings of the trade unions, the Chartist movement in England, and, to a lesser extent, the struggles of the Forty-eighters in Germany were protests against the conditions which confronted the workers. Early in the second half of the nineteenth century, these protests culminated in the organization of the Socialist International with the definite aim of abolishing the profit system.

As these protests became more vociferous and threatened the very existence of the industrial state, various European governments began a search for means of affording some economic security to the workers. Some of them inaugurated systems of voluntary savings and insurance, and through subsidies and high interest rates sought to induce the workers to provide for the various emergencies confronting them. After many years of experience, the futility of such provisions became evident. Workers could not or would not avail themselves of these schemes. The conclusion was universally reached that only a system of compulsory insurance which, while denying "the right to be improvident," assists the workers in bearing the cost, could provide effectively, economically and in a self-respecting manner against the various emergencies confronting the worker and his family, as well as remove the greatest threat to the existing order of society.

While agitation for workmen's insurance had been going on for many years in a number of industrial countries, and scattered plans were inaugurated by private industries and trade unions, the beginning of the modern social insurance movement must be traced to 1883 when Germany inaugurated its sickness and maternity insurance system for industrial wage-earners. This was followed by the establishment of workmen's compensation for accidents in 1884, and, under the leadership of Bismarck, the program was rounded out to include invalidity, old age and death benefits in 1889.

For the reasons why Germany was the first to undertake social insurance as a broad national program, says *Dr. Rubinow*, one must look to the entire history of Germany during the nineteenth century. As was pointed out by John Graham Brooks in his profound study of the German system, at least three separate reasons may be given to explain the fast development in Germany, three reasons closely connected. One was that on the continent, Germany, during the second half of the nineteenth century, was the country of the greatest industrial growth; the second was the German conception of the state as developed by German philosophers like Fichte, who wrote a hundred years ago, and the German economists like Wagner and Schaeffle, who never fell under the influence of the *laissez-faire* policy of the classical English economists; and last but not least, there was the rapid development of the labor movement under Socialist banners of various shadings. Dr. Schaeffle, the State Socialist, elaborated a program of social insurance as early as 1867. Lasalle openly advocated that the state come to the assistance of the working class. The great Karl Marx had no patience with the negative attitude of French socialists and anarchists to the state.

By instituting social insurance, the "Iron Chancellor" hoped that the tide of socialism would be stemmed. This hope, however,



was doomed to disappointment, and the socialist and labor movements flourished under the protection afforded by social insurance. It brought solidity and unity to the nation, and gave great impetus to modern Germany.

The history of social insurance is remarkable for its rapid spread throughout the civilized world. The earlier opposition to the German idea of compulsion and complete state control, especially marked in the Latin- and English-speaking countries, soon gave way, and these principles became almost universally accepted throughout the world. One or more forms of social insurance are now in operation in every civilized nation in the world.

### Achievements of social insurance

Social insurance is to-day a corner-stone of the social order in Europe. Joseph L. Cohen, a keen British student of the subject said:

More than ever before social insurance is becoming a world-wide movement constantly increasing the emergencies covered, extending the numbers and classes whom it covers, and everywhere tending to be applied compulsorily through state machinery. It is well-nigh universally agreed that it has mitigated suffering and helped the wage-earning classes to maintain their standard of living at the time when it was most threatened. It is the chief device for overcoming the haunting dread of insecurity, the fear of the helpless penury of wife and children should the breadwinner die, which constitute the most acute and persistent cause of social unrest.

Although the primary aim of social insurance is the continuance of an income to working-class families during sickness, accident, unemployment, death and old age, experience over nearly five decades shows that it has also been instrumental in prolonging life, improving national health, increasing industrial efficiency, stimulating patriotic idealism and securing greater national stability.

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Not only has social insurance stimulated industrial efficiency by removing the fear of insecurity from the workers' minds but it has also altered the workers' attitude towards the state. Instead of being regarded as an enemy of the masses, the state is increasingly being thought of as an agency for the promotion of the public good. More than any other factor, social insurance has been responsible

for saving a number of European governments from complete economic collapse after the World War. To quote an English writer:

Although the unemployment insurance scheme received more criticism than health insurance, it is probably owing solely to its existence in the years 1920-1923 that revolution in this country has been avoided, and there is no doubt whatever that had the government of the day attempted to face the unemployment of 1922 with the machinery of 1909, a definite uprising would have taken place.

Similar testimony comes from all elements in Great Britain whether Laborite, Liberal or Conservative. According to the Balfour Committee on Industry and Trade:

The most important consideration is not the direct money cost of social services, but their effects on industrial efficiency. At present Great Britain occupies a unique position in this matter. In no other great commercial country, so far as we are aware, is there anything approaching the same public expenditure on safeguarding the standard of life of the working population and protecting them from the consequences of the various risks of life and industry. . . .

The primary effect is to improve materially the well being of the industrial population in ways in which such improvement could not have been achieved by individual effort except at enormously greater cost. The sense of security and the relief from suffering thus obtained is a national and personal asset of the highest value, which is often neglected in making comparisons of British wages and conditions of labor with those obtaining in other countries.

It has been represented to us, and we can well believe, that in the years immediately following the war, the existence of the social services referred to above saved the country from the worst forms of unrest; and it is evident that their influence at all times is in the direction of promoting industrial stability and diminishing discontent.

Contrasting the comprehensive system of social protection in England with the American method of putting "the maximum pressure on the individual to do his best," the Balfour Committee with prophetic insight stated in 1929 that "there is every reason to expect that the tendency in the United States during the next few years will be towards the wider recognition of the wastefulness and baneful effects on industry of leaving excessive risks uncovered."

Addressing the Fifth National Conference of the American Association for Old Age Security in the spring of 1932, Lord Snell, Baron of Plumstead, in praising the achievements of the British social insurance plan declared:

I wish to add a word about the spiritual aspect of this matter to the workman himself. When a workman suffers he suffers all the more comfortably, if I may say so, when he knows that behind him in his sorrow

there is the nation to which he belongs. And there is not a workman in England who does not know that up to the limits of its rights and power the whole of the nation is organized to try to meet the needs of its people and to provide against the worst forms of suffering. . . . England has a story of which her sons are rightly proud. She has been great in many fields. But she has done nothing that is more worthy of her than that in the great hour of her need and in the midst of her innumerable anxieties, her first thought has been to sustain the manhood on which her fame so well reposes.

## SECURITY FOR A PEOPLE

*First Annual Report of the Social Security Board, 1936. Washington: Government Printing Office, 1937.*

AN ATTEMPT to find security for a people is among the oldest of political obligations and the greatest of the tasks of a state. The Declaration of Independence sets down as self-evident the right of a people "to provide new guards for a future security." The avowed object of the Constitution of the United States is "to secure the blessings of liberty to ourselves and our posterity."

But what is security? It is no blessing to be had for the asking. It is no gift of the government through a single legislative act. It is no abstraction too nebulous for definition. Security begins with bread and butter. But a mere subsistence is no security for the American citizen. The Nation is rich in natural resources; it possesses a developing technology; it has a varied abundance of human capacities to turn to account. Security is more than a condition of material well-being. An opportunity to earn a living, to be a member of the community, to have a part in the government is basic. In positive terms, the security of a people is the sum of the arrangements set up by business, by the government, and by society through which the things we cherish are safeguarded against the hazards we, as individuals, cannot control.

Above all, security is not static. The march of the decades brings changed conditions. Old problems have to be freshly stated, established safeguards to be supplanted by new. But there is still the necessity of serving a people in their lives and properties, their liberties and opportunities. As we have met the exigencies which changing times have brought, the domain of security has been enriched and enlarged. As the way opens ahead, we must secure its wider opportunities.

The quest of security is a task for the whole of the people. It

must be worked out within a system which is distinctly American. That system does not offer the individual a life of security. It grants him an opportunity and imposes upon him the obligation to find security for himself. There can be no obligation without opportunity. And for opportunity the individual must look to private enterprise. Upon it he is dependent for a job, an income, a chance to get ahead, a place to put his savings. If agriculture, industry, and business are articulated into an orderly and smoothly running system, the more fundamental part of the problem is solved. To the extent to which they are not so articulated, an obligation rests upon the government. Agriculture and industry must be aided to provide the opportunities out of which the security of the people is to be created. Thus, the security of a people is a great cooperative enterprise. The citizens, the economic system, and the government are partners in this national provision.

In this endeavor the government has its distinctive part. Its task is to quicken opportunity, to set up barriers against industrial shock, to care for the needy for whom private enterprise cannot provide. Its policies must be directed to all groups in society. The nation is an intricate organization of activities. Interests, occupations, and sections have different tasks to perform in a national economy. The security of each must be promoted within the circumstances peculiar to it.

The Social Security Act was passed as a single measure to promote the realization of this broad aim. Its meaning and significance are to be discovered in its relationship to the society it serves. It does not usurp the role of private enterprise. It recognizes work and a wage as the best security which the worker can find for himself. The Act provides not a complete security in itself but a necessary complement to the security afforded by private enterprise and a complement to other measures of government directed to the same end. The plan would make a sorry go of it if the whole burden of keeping a people from destitution fell upon its provisions. In fact, it is the reasonable certainty of what industry can provide that makes it possible for government to undertake its task. It carries no threat to the way of individual thrift. On the contrary, it enlarges the opportunities and lessens the hazards of personal provision.

Here is the key to the Social Security Act. It hedges the major hazards of life about with safeguards which neither the individual alone nor industry unaided can provide. The life of the worker is continuous. The income from his job obeys the tides of the market; his expenses click on endlessly with the clock. This is the case for unemployment compensation. The worker's living comes from his

job; yet his life is likely to outlast the skills which he can market. Neither wages nor savings can be depended upon to protect him against want in old age. The way of individual provision is beset with too many perils for safety. This is the case for old-age benefits. A number of hazards which no one can control lie in the path of every man and every woman—a dependent childhood, blindness, disability, the need for maternity care, an indigent old age. This is the case for public assistance and special services for health and welfare.

We cannot achieve security for a nation without promoting the security of the groups which make it up. But interests are interlocked. The well-being of industry reaches the farmer in a more plentiful supply of cheaper goods, just as an increase in the stream of farm income sets wheels turning and wage earners to work. As in war, so in public policy, forces must be massed at certain points of stress to protect the safety of all.

### *EQUITY, ADEQUACY, AND RELATED FACTORS IN OLD AGE SECURITY*

Reinhard Hohaus, *The Record*,  
American Institute of Actuaries,  
June, 1938.

PRIVATE INSURANCE offers protection against a wide variety of risks pertaining to life, health, and property. As a rule, it is entirely voluntary. An individual decides whether he wishes to have any one, or a number, of the various types of protection offered; and, if so, how much of it he wants or can afford, regardless of the extent to which this may meet his needs. Private insurance exists for those who feel the need for protection against certain contingencies sufficiently to join voluntarily with others, exposed to a similar risk, in maintaining a fund from which will be paid the risks that occur within the group.

Because of its voluntary nature, then, private insurance must be built on principles which assure the greatest practicable degree of equity between the various classes insured. Not only would the very nature of the case make it basically unfair to have one homogeneous group of insured designedly pay for part of the costs of providing insurance for another group for which the actuarial measure of the risk is quite different, but such a practice would lead to a cessation of insurance soon after the former group came

to understand that it could save money by being treated as an independent, financially self-contained unit.

Social insurance, on the other hand, is of vastly different character and is generally assigned a considerably different function. It aims primarily at providing society with some protection against one or more major hazards which are sufficiently widespread throughout the population and far-reaching in effect to become "social" in scope and complexion. Usually these risks are not many in number. Yet, if not guarded against through some organized means, they produce large dependency problems that take their toll in terms not only of financial but of human values as well.

Directed against a dependency problem, social insurance is generally compulsory—not voluntary—giving the individual for whom it is intended no choice as to membership. Nor can he as a rule select the kind and amount of protection or the price to be paid for it. All this is specified in the plan, and little, if any, latitude is left for individual treatment. Indeed, social insurance views society as a whole and deals with the individual only in so far as he constitutes one small element of that whole. Consistent with this philosophy, its first objective in the matter of benefits should, therefore, be that those covered by it will, so far as possible, be assured of that minimum income which in most cases will prevent their becoming a charge on society. Not until this is accomplished should financial resources (whatever, if anything, may remain of them) be considered as available to provide individual differentiation aiming at equity.

Private insurance, then, is adapted to the individual's need for, and his ability to afford, protection against one or more of a large variety of risks. Social insurance, on the other hand, is molded to society's need for a minimum of protection against one or more of a limited number of recognized social hazards. The minimum may be considered as that income which society feels is necessary and economically practicable for the subsistence of individuals comprising it. These payments, it is held, must be met in one form or another anyway, and social insurance endeavors to organize the budgeting thereof and dispensing thereof through systematic governmental processes. Hence, just as considerations of equity of benefits form a natural and vital part of operating private insurance, so should considerations of adequacy of benefits control the pattern of social insurance. Likewise, as private insurance would collapse if it stressed considerations of adequacy more than those of equity, so will social insurance fail to remain undisturbed if considerations of equity are allowed to predominate over those of adequacy.

Social adequacy, of course, concerns not only the size of the benefits but also the proportion of the population covered under a social insurance plan. The latter phase obviously has a substantial influence on the value of a plan to society. But its bearing on the relationship between equity and adequacy is perhaps even more important. The smaller the proportion covered by a plan, the less it represents that national commonness of purpose which, by transcending the importance of the individual, justifies a necessary modification of strict individual equity. The smaller the relative coverage, therefore, the more do practical influences impede the rationalization of adequacy in a benefit formula.

The foregoing need not necessarily imply that all considerations of equity should be discarded from a social insurance plan; rather the point is that, of the two principles, adequacy is the more essential and less dispensable. Entirely aside from the question of introducing a degree of equity for its own sake are other reasons that have been advanced for its recognition in some form. Among these are (a) that it provides some measure of individualistic treatment; (b) that it acts as an impetus for the proper payment of the prescribed contributions; and (c) that it causes the benefits to reflect automatically (though to a limited extent only) some of the differences among individuals and as between geographic regions in costs and standards of living—differences that, in a country of the size of the United States whose population consists of many types and races of people, are naturally so great, and indeed so fundamental, as to command acknowledgment.

Just exactly what is meant by equity in social old age insurance, however, is not a clear-cut matter. There seem to exist many interpretations of this principle. The precise (private insurance) construction conceives of the individual's benefit as the annuity produced by the accumulation, at interest and with appropriate adjustment for mortality during any period in which that factor is involved, of specified contributions previously made directly in his behalf. Quite different in its effect on the range of benefits is the concept that the amount of benefit should bear merely a very limited relationship to some base reflecting the individual's membership record. The former construction is, of course, quite incompatible with the fundamental purposes of social insurance, since it completely precludes the role of adequacy in the initial stages of the operation of a plan. Whatever equity is injected into a social insurance benefit formula, therefore, must take a form tending toward the latter position.

Applying this discussion to the Federal old age benefits system, it would appear that, though already embodying a combination of

the principles of equity and adequacy, it unduly stresses the former. In the early years the benefits would be small, forcing many of the annuitants to resort to other assistance for maintenance, while in later years, as contribution records grew, the pensions would reach relatively large amounts. Hence, the plan in its effort to provide some equity appears in a substantial measure to neglect considerations of adequacy for early beneficiaries. Moreover, it excludes a large proportion of the working population—comprising several classes that are in need of protection probably as much as, if not more than, some of those now included. This too seems a limitation of the scheme contrary to the social conception of adequacy. It would appear, therefore, that both the particular distribution of emphasis as between equity and adequacy in the benefit formula and the limited coverage of the plan—more perhaps than any other factors—presage the likelihood of a modification of the present old age benefits system after the nation at large becomes more conversant with its provisions and their implications.

## TEN YEARS OF SOCIAL SECURITY

Arthur J. Altmeyer, *Survey Graphic*, September, 1945.

NOW WHEN WE are rounding out the first decade of the social security program in the United States, it is a good time to re-examine some fundamental assumptions made in setting out on that course since the bill became law with President Roosevelt's signature on August 14, 1935. And to do this in the light not only of the road we have come, but of the road we still have to travel.

Clearly, social security substitutes hopes for fears. There are those among us who trust neither human nature nor democratic government; and who ten years ago believed that to cut down fear of losing a job as a motive force among men, would lead to a nation of loafers. There are those of us who do trust both human nature and democracy and hence believed that it is hope, not fear, that leads to high endeavor.

Now, as then, what you and I and Americans generally assume about man and his world tends to set our approach to social security—an approach which a decade of experience should modify if we take it to heart.



In formulating any philosophy of social security for ourselves, we must get our bearings by starting not ten but 500,000 years ago. I mean this seriously, because such a philosophy harks back to those age-old assumptions which have come down to us concerning the nature of man. Next, it depends on the relatively modern views we hold, one way or another, about the nature of human society and the nature of government.

If we get that far and our heads are still above water, we shall have to clarify our thinking on the economic order in which we believe human beings can be happiest; the forces we count on to make it tick, how they affect one another, how and whether social security fits into the pattern. And finally, for practical purposes, we have to decide what fiscal policies are likely to make ends meet.

Let us begin by briefly taking these bearings together.

### Some basic perspectives

On the *nature of man*, we have a choice of several theories. I pin my faith to man's infinite perfectibility—the only theory which to my mind has kept us sane in a world at war. Even with the devastating and terrible things men have done to each other in the 1940's the vast majority have not sunk to the lowest levels set down in recorded history. Rather, the outcome has hung on matching courage and force with high hopes and human feeling. Certainly the GI is a very different person from the warrior of ancient times. Insofar as we can piece together the story written first in fossil remains, then on tablets of clay and finally on paper, mankind has progressed.

On the *nature of human society*, we have to make up our minds whether the impulse to cooperate is stronger than the urge to combat. Here I choose the affirmative, despite two world wars since the turn of the century. The United Nations have demonstrated that their ability to cooperate is strong enough not only to survive but to unite against future aggression while the fight is still on.

On the *nature of government*, our view here in the United States was projected by Rousseau, Jefferson, Paine and others, when the prevailing theory was still the divine right of kings. These insurgents of 175 years ago said in essence: "No, each man has within him the capacity of infinite perfectibility, and government has developed out of a social compact entered into voluntarily by ordinary people who join together for a common purpose."

Their thesis was that government exists for the governed and can endure only so long as it serves individuals reasonably well; that to survive, a democratic society must rely on hope and in-

centive, rather than fear and compulsion, to influence the conduct and aspirations of its citizens. In this perspective, social security has a place beside the civil liberties which safeguard our freedom.

On the *nature of our economic order*, my assumption is that in this country we believe in a competitive economy with differential rewards. But that is not to say that we want one in which some people get more simply because other people get less. Over a century ago, Saint-Simon laid down the dictum: From each according to his ability and to each according to his need. A society successfully built on that foundation would be a rather fine one in which to live. Nor does a competitive economy necessarily have to reject Saint-Simon.

Progressive taxation, which takes from each according to his ability to pay, is fully accepted as equitable in the U. S. A. Social security itself can and, in this country, does pay benefits in differing amounts to take account of differences in lost earnings. Yet at the same time it recognizes the actual or presumptive needs of beneficiaries.

If we can agree on the kind of economic order we want, we still have the difficult job of reckoning with the forces on which its success depends. From their output of goods and services must come a people's standard of living. Thus we must consider the nation's productivity in deciding what social security benefits will be paid and under what conditions. Consider, also, in a competitive society their effect on wage rates, on mobility of workers, on the business cycle and full employment.

### Fiscal bearings

Then very practically, because benefits cost money, we must consider how to finance social security within the whole framework of modern government. Here several basic questions arise.

Is it a definite goal of a social security system to redistribute income? If so, is this to be done vertically or horizontally, or both? When this term is used, most people think of the vertical process—as between large and small incomes—through which common public services are sustained by a graduated income tax. But there also can be horizontal redistribution among people at the same general economic level. For example, among workers who are earning and those who are not because they lack jobs or are disabled or old. Social security thus has an obvious bearing on the question of how far, and in what direction, and for what justification, sharing wealth shall be carried on in a modern democracy.

Next, to what extent should contributions called for by social

security take the form of incentive taxation and be employed for purposes other than to obtain funds necessary to meet the cost of benefits? For example, employers generally are now very strongly in favor of "experience rating" under state unemployment insurance laws. They maintain that if an employer's payroll contributions are lowered when he has a record of steady employment, it will be to his interest to continue that record.

Some employers would say that the main purpose of unemployment insurance is not to pay benefits to people who are involuntarily unemployed, but thus to stabilize employment. Regular and dependable wages are of course better than out-of-work benefits.

Others recognize that major factors which cause unemployment are outside the control of employers individually or as a group. They hold that one basic purpose of an insurance program in the interests of the community as a whole is to spread the burden between inherently good "employment risks" (such as the public utilities) and industries that are subject to seasonal and other swings in employment (such as building construction).

Whatever our views, we should, of course, be sure that any incentive taxation can and does actually provide an effective spur to employment. Even more important, we must be sure that no secondary considerations defeat the primary purpose of giving workers everywhere adequate protection. We must make sure, for example, that competition between the states to reduce contributions for their employers does not result in such low rates that the amount of benefits is inadequate and their duration cut short when hard times come.

We must consider also how such benefits fit into what is usually called "compensatory spending"—how they help maintain household consumption through various phases of the business cycle and hence promote a steady stream of purchasing power on which workers and business alike, and the nation as a whole, must depend.

### Basic objectives

All these fundamental questions must be borne in mind when we are asked what we are aiming at through social security. My answer would be, we are aiming at a minimum level of well-being for the people of this nation. Because we live in a money economy, that means the minimum of income and services essential to decent human existence. \*

What is sufficient for that decent level varies from person to person, from community to community, from nation to nation. It varies with the relationship of population to national resources,

with the ability of a nation to maintain a sufficient output of goods and services. If the United States were an overpopulated country with meager resources, our idea of a decent level of human existence would be very different from what it is today.

As a corollary—or as a modification of this fundamental concept of a minimum of income and services for all—social security involves the principle that persons similarly situated shall be treated alike. In public assistance, this means that people with equal needs shall receive equal assistance; that needy children in a particular family should receive neither more nor less than those in any other family or any other community or state—whose needs are the same.

This principle also encompasses the idea that people with the same wage history, the same wage loss, and the same record of contributions shall receive the same amount of social insurance benefits. To illustrate: Under the *federal* old age and survivor insurance system, an old mill worker who has worked for thirty years at from \$20 to \$30 a week in Rhode Island gets exactly the same benefit when he retires as any other wage earner who has worked as long, at like wages, in any other covered job anywhere in the country—whether in a factory or store or office or mine; whether in North or South, East or West.

Under the *federal-state* unemployment compensation systems, on the other hand, an unemployed worker in one state, where benefit standards are high, may be eligible for two or three times as much in the aggregate if he remains unemployed, as a worker with exactly the same record of past employment and past earnings who happens to live in a state where benefit standards are low.

However, the principle of maintaining a minimum level of well-being need not exclude differentials *above* that minimum which take into account differences both in wage loss and in social insurance contributions on behalf of the persons entitled to benefit. The argument can be made that wage earners who have been able to achieve higher earnings build up greater obligations and that their wants are enhanced. Thus, both payroll deductions and old age insurance benefits of the \$20-a-week worker are lower than those of one who has averaged twice that, and still lower than those of the worker who has customarily brought home \$50 a week in his pay envelope.

But because this is social insurance, there is a minimum benefit below which *no* insured worker can fall. Also a maximum benefit, based on \$3,000 a year in covered employment, the highest income (or portion of an income) from which payroll deductions are made.

## Rights to social security

We say that social insurance benefits are paid as a matter of right. What does this mean? We are really talking about rights enforceable through due process of law. But while these rights presume definite procedures to qualify for benefits, the benefits themselves may be conditioned on many things.

The federal Social Security Act provides two kinds of programs—public assistance and social insurance. In the one, rights are conditioned on need; in the other, on wage loss. Yet they are of the same kind, although people sometimes hold that those arising out of contributions paid by a person, or on his behalf, are the more valid. I do not believe that such a distinction can be made. We do not say that the right of parents to send a youngster to public school depends on whether or not they pay direct taxes.

But contributions do affect the attitudes of beneficiaries, of legislators and the public generally. In our kind of economic society, the belief prevails that people should not only get what they earn but pay for what they get. It follows that the closer the connection between premiums and benefits, the more clearly are social security rights recognized. This explains the stigma often attached to the receipt of public assistance. Often the applicant himself feels that somehow or other he has failed to make the grade.

Given our competitive system, I don't know how we can avoid this dilemma. However, there is growing realization that an individual's need is usually due not to his own inadequacy, but to his economic and social environment, to bad luck or other fortuitous circumstances.

To me, it seems impossible to draw hard and fast lines between social insurance and public assistance. When people say that social insurance is something you get because you have paid for it, they forget that no social insurance program provides precisely what you have paid for. Social insurance benefits are weighted in favor of the low wage earner, in favor of the short-time, intermittent wage earner, in favor of persons with dependents.

Moreover, it is universally true that the structure of any social insurance system must be erected on the base of presumptive social needs rather than of exact private equities. The system cannot ignore individual equity but the primary consideration is social adequacy.

## Human equations

People say, also, that social insurance is governed by objective provisions; that it does not require "snooping around and prying

into" personal matters such as come up in administering public assistance. Such a distinction, too, is not valid.

Take questions necessary in determining dependents' benefits under old age and survivors insurance: whether the wage earner's wife or children are living with him; whether or not aged parents were wholly dependent on a deceased worker. Surely these are personal questions.

Or take questions that must be asked under an unemployment compensation act to make sure that claimants for benefits are genuinely unemployed and had good cause to quit their last job; whether or not they refuse to accept suitable work; whether they are available for work.

By way of more detailed illustration, take those last two questions which come up in infinite variety when workers claim unemployment benefits. Here is Mrs. Jones, who when cutbacks come, loses her job on a day shift in a big plant in Detroit. She has three children, and protests she cannot get anyone to stay with them at night. So she says she cannot take a third-shift job offered in another plant. That calls for night work which, as she sees it, isn't "suitable" under the circumstances, but she is "available" during the hours she has always worked.

Someone in the local office must appraise both Mrs. Jones' household situation and her work history. Perhaps she is a widow and has long supported her children; they depend wholly on her earnings. Should she be ruled "unavailable" for work because she feels she can't take the night job? Or should she get, for at least a time, the benefits to which her past wage record would entitle her; and thus have a chance to look for day work which will permit her both to earn and to fulfill her responsibilities?

Or perhaps day work is available but only as a scrubwoman, making no use of the mother's skills. She says the job would be too hard for her physically, and points to its meager wage. Against this she weighs the money value of the laundry, sewing, careful marketing and other services she could perform for her family. All in all, if unemployment benefits can't be paid her, she concludes she would do better to devote herself to her home and apply for aid to her dependent children.

Does Mrs. Jones refuse "suitable work" if she turns down the scrubwoman's job?

Such factors as these and many others must be sifted and evaluated by an unemployment compensation agency in determining whether or not an insured worker is able to work, available for work, has not refused suitable work. Surely these, too, are personal questions!

With the demobilization of our armed forces and the dismantling of war production, such questions are bound to multiply. Great changes will come over the labor market. Available postwar jobs will be very different from wartime jobs. Questions will come up of reconvertng machine operators into ditch diggers and dishwashers. Further, should trained personnel be asked to make violent vocational shifts? Is it reasonable to expect claimants, in view of home ownership or other personal considerations, to pull up stakes and move their families from one industrial area to another?

### **Insurance and assistance**

In the years of transition immediately ahead, both social insurance and public assistance are bound to confront not only such difficult judgments on personal situations but mass strains on their resources and flexibility.

It is good, therefore, to report that public assistance is moving toward greater simplicity, objectivity and adequacy than in the past. Benefits are no longer paid in kind, such as grocery orders and bushels of coal, but in cash. The recipient therefore has money, as other people do, to spend as he thinks best. If an applicant disagrees with the action taken in his case, he has a right to a hearing. The Social Security Act requires that the personal information he gives the public assistance agency be held confidential. Many states are abolishing what is known as "relatives' responsibility", that is, an old legal requirement that aid cannot be given to a needy person who has relatives considered able to help him, even though in fact they fail to do so.

Such developments are rubbing out some of the old distinctions between public assistance and social insurance so far as kinds of benefits and administrative procedures go. What are the children's allowances that Canada has just begun to pay to all families with children—out of general revenues and without a showing of need? Are they public assistance or social insurance or something else?

I am not arguing that we should abolish public assistance and turn everything into social insurance; much less that we should abolish social insurance and turn everything into public assistance. We should go on adapting these programs to achieve the common objective of social security—a minimum level of well-being. If we do that, their future will take care of itself. The program which proves more effective, more in harmony with the conscience of the people, will become dominant.

In the meantime—in peace years as in war years—it is vitally important to proceed on the assumption that social insurance

should be our first line of domestic defense against want and fear. Its practical and hopeful values are time-tested and world-tested. Social insurance has the unique advantage that it automatically relates benefits to loss of earnings, automatically protects benefit rights, automatically provides the funds to pay benefits and automatically controls costs.

Public assistance is our essential second line of defense against misery and defeat among people who lack social insurance protection—or whose needs transcend the benefits that an insurance system provides.

### The decade ahead

In the United States, as in all other countries that have developed social legislation, the first step has been to recognize the needs of particular groups whose special plight has won wide public attention—the blind, the aged, widows and orphans, and so on. A law is passed to deal with a particular group, and in time there come to be several measures dealing with various parts of a problem. Next comes a time—which I think we are now entering—when we can draw aside and try to look at our experience as a whole over a ten-year span; to iron out discrepancies, strengthen weak spots, and fill in gaps. Facing the postwar world, not only this country but others are going through such stock-taking.

General recommendations for strengthening and rounding out the social security program in the United States have been made by the Social Security Board to Congress. These call for extending social insurance to protect all gainfully employed persons everywhere—and their dependents. They call for covering the other major risks of involuntary wage loss to which a worker is liable—those from sickness and disability no less than unemployment and old age. They call for insurance against costs of medical care.

They call, also, for expanding federal-state public assistance programs to meet the needs not merely of the special groups now covered, but of any person who lacks the basic minimum for subsistence. And they hew to the line that insurance benefits and assistance payments alike shall be more adequate; that inequities in the protection available to persons whose circumstances are similar but who live in different parts of the country can and should be removed.

I am optimistic enough to believe that progress in this second decade of social security in the United States will at least equal the progress we have made in the first. But I am also confident



that when these next ten years have rolled by, we shall still be talking about the inadequacy of the program in achieving minimum well-being.

Social security will always be a goal, never a finished thing, because human aspirations are infinitely expandable—just as human nature is infinitely perfectible.

## *SOCIAL INSURANCE AND ALLIED SERVICES*

Report by Sir William Beveridge,  
New York: The Macmillan Company, 1942. Reprinted by permission of the Controller of His Britannic Majesty's Stationery Office.

**I**N PROCEEDING FROM this first comprehensive survey of social insurance to the next task—of making recommendations—three guiding principles may be laid down at the outset.

7. The first principle is that any proposals for the future, while they should use to the full the experience gathered in the past, should not be restricted by consideration of sectional interests established in the obtaining of that experience. Now, when the war is abolishing landmarks of every kind, is the opportunity for using experience in a clear field. A revolutionary moment in the world's history is a time for revolutions, not for patching.

8. The second principle is that organization of social insurance should be treated as one part only of a comprehensive policy of social progress. Social insurance fully developed may provide income security; it is an attack upon Want. But Want is one only of five giants on the road of reconstruction and in some ways the easiest to attack. The others are Disease, Ignorance, Squalor and Idleness.

9. The third principle is that social security must be achieved by co-operation between the State and the individual. The State should offer security for service and contribution. The State in organising security should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family.

10. The Plan for Social Security set out in this Report is built upon these principles. It uses experience but is not tied by experi-

ence. It is put forward as a limited contribution to a wider social policy, though as something that could be achieved now without waiting for the whole of that policy. It is, first and foremost, a plan of insurance—of giving in return for contributions benefits up to subsistence level, as of right and without means test, so that individuals may build freely upon it.

### **The way to freedom from want**

11. The work of the Inter-departmental Committee began with a review of existing schemes of social insurance and allied services. The Plan for Social Security, with which that work ends, starts from a diagnosis of want—of the circumstances in which, in the years just preceding the present war, families and individuals in Britain might lack the means of healthy subsistence. During those years impartial scientific authorities made social surveys of the conditions of life in a number of principal towns in Britain, including London, Liverpool, Sheffield, Plymouth, Southampton, York and Bristol. They determined the proportions of the people in each town whose means were below the standard assumed to be necessary for subsistence, and they analysed the extent and causes of that deficiency. From each of these social surveys the same broad result emerges. Of all the want shown by the surveys, from three-quarters to five-sixths, according to the precise standard chosen for want, was due to interruption or loss of earning power. Practically the whole of the remaining one-quarter to one-sixth was due to failure to relate income during earning to the size of the family. These surveys were made before the introduction of supplementary pensions had reduced the amount of poverty amongst old persons. But this does not affect the main conclusion to be drawn from these surveys: abolition of want requires a double re-distribution of income, through social insurance and by family needs.

12. Abolition of want requires, first, improvement of State insurance, that is to say provision against interruption and loss of earning power. All the principal causes of interruption or loss of earnings are now the subject of schemes of social insurance. If, in spite of these schemes, so many persons unemployed or sick or old or widowed are found to be without adequate income for subsistence according to the standards adopted in the social surveys, this means that the benefits amount to less than subsistence by those standards or do not last as long as the need, and that the assistance which supplements insurance is either insufficient in amount or available only on terms which make men unwilling to have recourse to it. None of the insurance benefits provided before

the war were in fact designed with reference to the standards of the social surveys. Though unemployment benefit was not altogether out of relation to those standards, sickness and disablement benefit, old age pensions and widows' pensions were far below them, while workmen's compensation was below subsistence level for anyone who had family responsibilities or whose earnings in work were less than twice the amount needed for subsistence. To prevent interruption or destruction of earning power from leading to want, it is necessary to improve the present schemes of social insurance in three directions: by extension of scope to cover persons now excluded, by extension of purposes to cover risks now excluded, and by raising the rates of benefit.

13. Abolition of want requires, second, adjustment of incomes, in periods of earning as well as in interruption of earning, to family needs, that is to say in one form or another it requires allowances for children. Without such allowances as part of benefit or added to it, to make provision for large families, no social insurance against interruption of earnings can be adequate. But, if children's allowances are given only when earnings are interrupted and are not given during earning also, two evils are unavoidable. First, a substantial measure of acute want will remain among the lower paid workers as the accompaniment of large families. Second, in all such cases, income will be greater during unemployment or other interruptions of work than during work.

14. By a double re-distribution of income through social insurance and children's allowances, want, as defined in the social surveys, could have been abolished in Britain before the present war. As is shown in para. 445, the income available to the British people was ample for such a purpose. The Plan for Social Security set out in Part V of this Report takes abolition of want after this war as its aim. It includes as its main method compulsory social insurance, with national assistance and voluntary insurance as subsidiary methods. It assumes allowances for dependent children, as part of its background. The plan assumes also establishment of comprehensive health and rehabilitation services and maintenance of employment, that is to say avoidance of mass unemployment, as necessary conditions of success in social insurance. These three measures—of children's allowances, health and rehabilitation services, and maintenance of employment—are described as assumptions A, B and C of the plan; they fall partly within and partly without the plan itself, extending into other fields of social policy. They are discussed, therefore, not in the detailed exposition of the plan in Part V of the Report, but in Part VI, which is concerned with social security in relation to wider issues.

15. The plan is based on a diagnosis of want. It starts from facts, from the condition of the people as revealed by social surveys between the two wars. It takes account of two other facts about the British community, arising out of past movements of the birth rate and the death rate, which should dominate planning for its future; . . . The first of the two facts is the age constitution of the population, making it certain that persons past the age that is now regarded as the end of working life will be a much larger proportion of the whole community than at any time in the past. The second fact is the low reproduction rate of the British community today; unless this rate is raised very materially in the near future, a rapid and continuous decline of the population cannot be prevented. The first fact makes it necessary to seek ways of postponing the age of retirement from work rather than of hastening it. The second fact makes it imperative to give first place in social expenditure to the care of childhood and to the safeguarding of maternity.

16. The provision to be made for old age represents the largest and most rapidly growing element in any social insurance scheme. . . . Briefly, the proposal is to introduce for all citizens adequate pensions without means test by stages over a transition period of twenty years, while providing immediate assistance pensions for persons requiring them. In adopting a transition period for pensions as of right, while meeting immediate needs subject to consideration of means, the Plan for Social Security in Britain follows the precedent of New Zealand. The final rate of pensions in New Zealand is higher than that proposed in this Plan, but is reached only after a transition period of twenty-eight years as compared with twenty years suggested here; after twenty years, the New Zealand rate is not very materially different from the basic rate proposed for Britain. The New Zealand pensions are not conditional upon retirement from work; for Britain it is proposed that they should be retirement pensions and that persons who continue at work and postpone retirement should be able to increase their pensions above the basic rate. The New Zealand scheme is less favourable than the plan for Britain in starting at a lower level; it is more favourable in some other respects. Broadly the two schemes for two communities of the British race are plans on the same lines to solve the same problem of passage from pensions based on need to pensions paid as of right to all citizens in virtue of contribution.

### The nature of social insurance

20. Under the scheme of social insurance, which forms the main feature of this plan, every citizen of working age will contribute in his appropriate class according to the security that he needs, or as a married woman will have contributions made by the husband. Each will be covered for all his needs by a single weekly contribution on one insurance document. All the principal cash payments—for unemployment, disability and retirement will continue so long as the need lasts, without means test, and will be paid from a Social Insurance Fund built up by contributions from the insured persons, from their employers, if any, and from the State. This is in accord with two views as to the lines on which the problem of income maintenance should be approached.

21. The first view is that benefit in return for contributions, rather than free allowances from the State, is what the people of Britain desire. This desire is shown both by the established popularity of compulsory insurance, and by the phenomenal growth of voluntary insurance against sickness, against death and for endowment, and most recently for hospital treatment. It is shown in another way by the strength of popular objection to any kind of means test. This objection springs not so much from a desire to get everything for nothing, as from resentment at a provision which appears to penalise what people have come to regard as the duty and pleasure of thrift, of putting pennies away for a rainy day. Management of one's income is an essential element of a citizen's freedom. Payment of a substantial part of the cost of benefit as a contribution irrespective of the means of the contributor is the firm basis of a claim to benefit irrespective of means.

22. The second view is that whatever money is required for provision of insurance benefits, so long as they are needed, should come from a Fund to which the recipients have contributed and to which they may be required to make larger contributions if the Fund proves inadequate. The plan adopted since 1930 in regard to prolonged unemployment and sometimes suggested for prolonged disability, that the State should take this burden off insurance, in order to keep the contribution down, is wrong in principle. The insured persons should not feel that income for idleness, however caused, can come from a bottomless purse. The Government should not feel that by paying doles it can avoid the major responsibility of seeing that unemployment and disease are reduced to the minimum. The place for direct expenditure and organisation by the State is in maintaining employment of the labour and other pro-

ductive resources of the country, and in preventing and combating disease, not in patching an incomplete scheme of insurance.

23. The State cannot be excluded altogether from giving direct assistance to individuals in need, after examination of their means. However comprehensive an insurance scheme, some, through physical infirmity, can never contribute at all and some will fall through the meshes of any insurance. The making of insurance benefit without means test unlimited in duration involves of itself that conditions must be imposed at some stage or another as to how men in receipt of benefit shall use their time, so as to fit themselves or to keep themselves fit for service; imposition of any condition means that the condition may not be fulfilled and that a case of assistance may arise. Moreover for one of the main purposes of social insurance—provision for old age or retirement—the contributory principle implies contribution for a substantial number of years; in the introduction of adequate contributory pensions there must be a period of transition during which those who have not qualified for pension by contribution but are in need have their needs met by assistance pensions. National assistance is an essential subsidiary method in the whole Plan for Social Security, and the work of the Assistance Board shows that assistance subject to means test can be administered with sympathetic justice and discretion taking full account of individual circumstances. But the scope of assistance will be narrowed from the beginning and will diminish throughout the transition period for pensions. The scheme of social insurance is designed of itself when in full operation to guarantee the income needed for subsistence in all normal cases.

24. The scheme is described as a scheme of insurance, because it preserves the contributory principle. It is described as social insurance to mark important distinctions from voluntary insurance. In the first place, while adjustment of premiums to risks is of the essence of voluntary insurance, since without this individuals would not of their own will insure, this adjustment is not essential in insurance which is made compulsory by the power of the State. In the second place, in providing for actuarial risks such as those of death, old age or sickness, it is necessary in voluntary insurance to fund contributions paid in early life in order to provide for the increasing risks of later life and to accumulate reserves against individual liabilities. The State with its power of compelling successive generations of citizens to become insured and its power of taxation is not under the necessity of accumulating reserves for actuarial risks and has not, in fact, adopted this method in the past. The second of these two distinctions is one of financial practice only; the first raises important questions of policy and equity.

Though the State, in conducting compulsory insurance, is not under the necessity of varying the premium according to the risk, it may decide as a matter of policy to do so.

25. When State insurance began in Britain, it was felt that compulsory insurance should be like voluntary insurance in adjusting premiums to risks. This was secured in health insurance by the system of Approved Societies. It was intended to be secured in unemployment insurance by variation of contribution rates between industries as soon as accurate valuation became possible, by encouragement of special schemes of insurance by industry, and by return of contributions to individuals who made no claims. In the still earlier institution of workmen's compensation, adjustment of premiums to industrial risks was a necessary consequence of the form in which provision for industrial accidents was made; by placing liability on employers individually and leaving them to insure voluntarily against their liability. In the thirty years since 1912, there has been an unmistakable movement of public opinion away from these original ideas, that is to say, away from the principle of adjusting premiums to risks in compulsory insurance and in favour of pooling risks. This change has been most marked and most complete in regard to unemployment, where, in the general scheme, insurance by industry, in place of covering a large part of the field, has been reduced to historical exceptions; today the common argument is that the volume of unemployment in an industry is not to any effective extent within its control; that all industries depend upon one another, and that those which are fortunate in being regular should share the cost of unemployment in those which are less regular. The same tendency of opinion in favour of pooling of social risks has shown itself in the views expressed by the great majority of witnesses to the present Committee in regard to health insurance. In regard to workmen's compensation, the same argument has been put by the Mineworkers' Federation to the Royal Commission on Workmen's Compensation; as other industries cannot exist without coalmining, they have proposed that employers in all industries should bear equally the cost of industrial accidents and disease, in coalmining as elsewhere.

26. There is here an issue of principle and practice on which strong arguments can be advanced on each side by reasonable men. But the general tendency of public opinion seems clear. After trial of a different principle, it has been found to accord best with the sentiments of the British people that in insurance organised by the community by use of compulsory powers each individual should stand in on the same terms; none should claim to pay less because he is healthier or has more regular employment. In accord with

that view, the proposals of the Report mark another step forward to the development of State insurance as a new type of human institution, differing both from the former methods of preventing or alleviating distress and from voluntary insurance. The term "social insurance" to describe this institution implies both that it is compulsory and that men stand together with their fellows. The term implies a pooling of risks except so far as separation of risks serves a social purpose. There may be reasons of social policy for adjusting premiums to risks, in order to give a stimulus for avoidance of danger, as in the case of industrial accident and disease. There is no longer an admitted claim of the individual citizen to share in national insurance and yet to stand outside it, keeping the advantage of his individual lower risk whether of unemployment or of disease or accident.

### **Provisional rates of benefit and contribution**

27. Social insurance should aim at guaranteeing the minimum income needed for subsistence. What the actual rates of benefit and contribution should be in terms of money cannot be settled now, and that for two reasons. First, it is impossible today to forecast with assurance the level of prices after the war. Second, determination of what is required for reasonable human subsistence is to some extent a matter of judgment; estimates on this point change with time, and generally, in a progressive community, change upwards. The procedure adopted to deal with this problem has been: first, from consideration of subsistence needs, as given by impartial expert authorities, to determine the weekly incomes which would have been sufficient for subsistences in normal cases at prices ruling in 1938; second, to derive from these the rates appropriate to a cost of living about 25% above that of 1938. These rates of benefit, pension and grant are set out in para. 401 as provisional post-war rates; by reference to them it is possible to set forth simply what appears to be the most appropriate relation between different benefits and what would be the cost of each benefit and of all benefits together; it is possible to show benefits in relation to contributions and taxation. But the provisional rates themselves are not essential. If the value of money when the scheme comes into operation differs materially from the assumptions on which the provisional rates are based, the rates could be changed without affecting the scheme in any important particular. If social policy should demand benefits on a higher scale than subsistence, the whole level of benefit and contribution rates could be raised without affecting the structure of the scheme. If social policy or



financial stringency should dictate benefits on a lower scale, benefits and contributions could be lowered, though not perhaps so readily or without some adjustments within the scheme.

31. This considerable list of changes does not mean that, in the proposals of the Report, either the experience or the achievements of the past are forgotten. What is proposed today for unified social security springs out of what has been accomplished in building up security piece by piece. It retains the contributory principle of sharing the cost of security between three parties—the insured person himself, his employer, if he has an employer, and the State. It retains and extends the principle that compulsory insurance should provide a flat rate of benefit, irrespective of earnings, in return for a flat contribution from all. It retains as the best method of contribution the system of insurance documents and insurance stamps. It builds upon the experience gained in the administration of unemployment insurance and later of unemployment assistance, of a national administration which is not centralised at Whitehall but is carried out through responsible regional and local officers, acting at all points in close co-operation with representatives of the communities which they serve. It provides for retaining on a new basis the association of Friendly Societies with national health insurance. It provides for retaining within the general framework of a unified scheme some of the special features of workmen's compensation and for converting the associations for mutual indemnity in the industries chiefly concerned into new organs of industrial co-operation and self-government. While completing the transfer from local to national government of assistance by cash payments, it retains a vital place for Local Authorities in the provision of institutions and in the organisation and maintenance of services connected with social welfare. The scheme proposed here is in some ways a revolution, but in more important ways it is a natural development from the past. It is a British revolution.

### **Assumptions, methods and principles**

300. *Scope of social security.* The term "social security" is used here to denote the securing of an income to take the place of earnings when they are interrupted by unemployment, sickness or accident, to provide for retirement through age, to provide against loss of support by the death of another person and to meet exceptional expenditures, such as those connected with birth, death

and marriage. Primarily social security means security of income up to a minimum, but the provision of an income should be associated with treatment designed to bring the interruption of earnings to an end as soon as possible.

301. *Three assumptions.* No satisfactory scheme of social security can be devised except on the following assumptions:

- (A) Children's allowances for children up to the age of 15 or if in full-time education up to the age of 16;
- (B) Comprehensive health and rehabilitation services for prevention and cure of disease and restoration of capacity for work, available to all members of the community;
- (C) Maintenance of employment, that is to say, avoidance of mass unemployment.

The grounds for making these three assumptions, the methods of satisfying them and their relation to the social security scheme are discussed in Part VI. Children's allowances will be added to all the insurance benefits and pensions described below in paras. 320-349.

302. *Three methods of security.* On these three assumptions, a Plan for Social Security is outlined below, combining three distinct methods: social insurance for basic needs; national assistance for special cases; voluntary insurance for additions to the basic provision. Social insurance means the providing of cash payments conditional upon compulsory contributions previously made by, or on behalf of, the insured persons, irrespective of the resources of the individual at the time of the claim. Social insurance is much the most important of the three methods and is proposed here in a form as comprehensive as possible. But while social insurance can, and should, be the main instrument for guaranteeing income security, it cannot be the only one. It needs to be supplemented both by national assistance and by voluntary insurance. National assistance means the giving of cash payments conditional upon proved need at the time of the claim, irrespective of previous contributions but adjusted by consideration of individual circumstances and paid from the national exchequer. Assistance is an indispensable supplement to social insurance, however the scope of the latter may be widened. In addition to both of these there is place for voluntary insurance. Social insurance and national assistance organized by the State are designed to guarantee, on condition of service, a basic income for subsistence. The actual incomes and by consequence the normal standards of expenditure of different sections of the population differ greatly. Making provision for these higher standards is primarily the function of the individual, that is to say, it is a matter for free choice and voluntary

insurance. But the State should make sure that its measures leave room and encouragement for such voluntary insurance. The social insurance scheme is the greater part of the Plan for Social Security and its description occupies most of this Part of the Report. But the plan includes national assistance and voluntary insurance as well.

303. *Six principles of social insurance.* The social insurance scheme set out below as the chief method of social security embodies six fundamental principles:

Flat rate of subsistence benefit

Flat rate of contribution

Unification of administrative responsibility

Adequacy of benefit

Comprehensiveness

Classification

304. *Flat rate of subsistence benefit.* The first fundamental principle of the social insurance scheme is provision of a flat rate of insurance benefit, irrespective of the amount of the earnings which have been interrupted by unemployment or disability or ended by retirement; exception is made only where prolonged disability has resulted from an industrial accident or disease. This principle follows from the recognition of the place and importance of voluntary insurance in social security and distinguishes the scheme proposed for Britain from the security schemes of Germany, the Soviet Union, the United States and most other countries with the exception of New Zealand. The flat rate is the same for all the principal forms of cessation of earning—unemployment, disability, retirement; for maternity and for widowhood there is a temporary benefit at a higher rate.

305. *Flat rate of contribution.* The second fundamental principle of the scheme is that the compulsory contribution required of each insured person or his employer is at a flat rate, irrespective of his means. All insured persons, rich or poor, will pay the same contributions for the same security; those with larger means will pay more only to the extent that as tax-payers they pay more to the National Exchequer and so to the State share of the Social Insurance Fund. This feature distinguishes the scheme proposed for Britain from the scheme recently established in New Zealand under which the contributions are graduated by income, and are in effect an income-tax assigned to a particular service. Subject moreover to one exception, the contribution will be the same irrespective of the assumed degree of risk affecting particular individuals or forms of employment. The exception is the raising of a proportion of the special cost of benefits and pensions for industrial

disability in occupations of high risk by a levy on employers proportionate to risk and pay-roll.

306. *Unification of administrative responsibility.* The third fundamental principle is unification of administrative responsibility in the interests of efficiency and economy. For each insured person there will be a single weekly contribution, in respect of all his benefits. There will be in each locality a Security Office able to deal with claims of every kind and all sides of security. The methods of paying different kinds of cash benefit will be different and will take account of the circumstances of insured persons, providing for payment at the home or elsewhere, as is necessary. All contributions will be paid into a single Social Insurance Fund and all benefits and other insurance payments will be paid from that fund.

307. *Adequacy of benefit.* The fourth fundamental principle is adequacy of benefit in amount and in time. The flat rate of benefit proposed is intended in itself to be sufficient without further resources to provide the minimum income needed for subsistence in all normal cases. It gives room and a basis for additional voluntary provision, but does not assume that in any case. The benefits are adequate also in time, that is to say except for contingencies of a temporary nature, they will continue indefinitely without means test, so long as the need continues, though subject to any change of conditions and treatment required by prolongation of the interruption in earning and occupation.

308. *Comprehensiveness.* The fifth fundamental principle is that social insurance should be comprehensive, in respect both of the persons covered and of their needs. It should not leave either to national assistance or to voluntary insurance any risk so general or so uniform that social insurance can be justified. For national assistance involves a means test which may discourage voluntary insurance or personal saving. And voluntary insurance can never be sure of covering the ground. For any need moreover which, like direct funeral expenses, is so general and so uniform as to be a fit subject for insurance by compulsion, social insurance is much cheaper to administer than voluntary insurance.

*Classification.* The sixth fundamental principle is that social insurance, while unified and comprehensive, must take account of the different ways of life of different sections of the community; of those dependent on earnings by employment under contract of service, of those earning in other ways, of those rendering vital unpaid service as housewives, of those not yet of age to earn and of those past earning. The term "classification" is used here to denote adjustment of insurance to the differing circumstances of

each of these classes and to many varieties of need and circumstance within each insurance class. But the insurance classes are not economic or social classes in the ordinary sense; the insurance scheme is one for all citizens irrespective of their means.

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## CHAPTER III

# SOCIAL SECURITY DEVELOPMENTS IN THE UNITED STATES

"[The Social Security Act] represents a corner stone in a structure which is being built but is by no means complete—a structure intended to lessen the force of possible future depressions, to act as a protection to future Administrations of the Government against the necessity of going deeply into debt to furnish relief to the needy—a law to flatten out the peaks and valleys of deflation and of inflation—in other words, a law that will take care of human needs and at the same time provide for the United States an economic structure of vastly greater soundness."

*Franklin D. Roosevelt, Statement Upon Signing of the Social Security Act, August 14, 1935.*

"Once it has been accepted that compulsion may be laid upon the individual to improve his life, on the ground that his voluntary efforts to improve it himself are unsatisfactory, there is no logical place to stop short of minding his life from birth to death."

*Editorial in AMERICAN AFFAIRS, National Industrial Conference Board, April, 1946.*

## INTRODUCTION

THE SOCIAL SECURITY ACT of 1935 was the immediate outgrowth of President Roosevelt's message to Congress on June 8, 1934, in which he painted in broad, bold strokes a picture of existing needs and forthcoming developments, saying: ". . . we are compelled to employ the active interest of the nation as a whole through government in order to encourage a greater security for each individual who composes it."

The President created a Committee on Economic Security to study the entire problem of social and economic security and make recommendations to him. This Committee made its re-

port early in 1935 and its basic recommendations were embodied in the Social Security Act of 1935.

The 1935 Act provided Federal grants to the states for three forms of public assistance; to the needy aged, blind, and dependent children. Second, it enabled states to enact unemployment insurance laws and expand their employment services. Third, it set up a Federal system of old age insurance for persons working in industry and commerce. Fourth, it provided additional Federal funds for the extension of state public health and rehabilitation facilities under the supervision of the United States Public Health Service and the Federal Vocational Rehabilitation Service and for the development of state maternal and child health and welfare programs under the supervision of the Federal Children's Bureau.

The only program in the legislation solely administered by the Federal government was Federal old age insurance. All other programs provided for the states to administer them with financial aid from the Federal government.

On November 23, 1936 the U. S. Supreme Court upheld in a 4 to 4 tie decision the constitutionality of the New York State unemployment insurance law. However, this decision did not deal with the unemployment insurance provisions of the Federal law. It was not until nearly two years after the passage of the Social Security Act that the Supreme Court upheld the constitutionality of the insurance provisions of the Federal act. On May 24, 1937, the Supreme Court, in two separate decisions written by Mr. Justice Cardozo, upheld the constitutionality of the provisions of the Federal law relating to both old age insurance and unemployment insurance.

The social security program became a key issue in the 1936 presidential campaign. John Winant, Republican Chairman of the Social Security Board, resigned in protest against the statements on social security made in a speech by Governor Landon, the Republican presidential nominee. In May, 1937, as a result of public discussion concerning various features of the law, an Advisory Council on Social Security was appointed. Congress amended the law in 1939, upon the recommendation

of the Social Security Board and the Advisory Council on Social Security, expanding the Federal old age insurance system to include monthly survivors' benefits to widows, children, and dependent parents, changing the character of the benefits from an individual basis to a family basis, liberalizing benefits in the early years, and providing for beginning payment of benefits in 1940 instead of 1942. Contributions to the system were frozen at 1 percent each on employer and employee.

In addition, coverage was extended under the Federal old age and survivors' insurance system to seamen, bank employees, and employed persons sixty-five or over. Bank employees were also brought under unemployment insurance. On the other hand, the exclusion of "agricultural labor" was broadened so as to exclude an additional 600,000 individuals from the protection of both insurance systems. Other amendments also were enacted providing additional Federal aid to the states under the various assistance, health, and welfare programs.

During the seven-year period following the adoption of the 1939 amendments, although Congress did not enact any major substantive changes in the Social Security Act, it did enact a number of separate laws affecting the program.

In 1943 legislation was enacted to enable seamen employed by the Federal government during the war to continue being covered under the Federal old age and survivors' insurance program rather than under the separate system for Federal employees. While the committee was considering continuation of the freezing of the old age and survivors' insurance contributions at the 1 percent rate on employers and employees for 1944, a provision was added to the law authorizing an appropriation, whenever it might become necessary, to the insurance fund out of general revenues of the Federal Treasury of "such additional sums as may be required to finance the benefits and payments provided" by the insurance program. Legislation also was passed in several successive years to continue freezing the insurance premiums at the 1 percent rate each on employers and employees.

In 1944 Congress adopted a provision making loans to state



unemployment insurance funds which might run low. Proposed legislation considered in 1942 and 1945 to provide Federal funds to supplement state unemployment insurance benefits temporarily during the conversion and reconversion periods, respectively, was not enacted into law. In both cases the proposed legislation was supported by organized labor, opposed by state unemployment insurance administrators, employers, and other groups, and was the subject of extensive controversy in Congress. In 1944 Congress passed the Servicemen's Readjustment Act, popularly known as the "G.I. Bill of Rights," which, among other things, provided unemployment insurance benefits to servicemen. This law relieved the states of the financial obligation which most of them had undertaken in their unemployment insurance laws for paying benefits to such servicemen with credits under the state law at the time of their entry into military service.

In 1945 certain Federal employees working for the Bonneville Power Administrator were included by Congress under both the old age and survivors' and the unemployment insurance programs.

In the field of old age assistance Congress enacted temporary wartime legislation permitting the states to exclude income received from agricultural labor or from nursing in computing the amount of assistance to a needy aged person.

During 1946 the House of Representatives Committee on Ways and Means held extensive hearings on social security. Before beginning the hearings, the Committee's technical staff issued a report on "Issues in Social Security." On the basis of this report and the hearings, the Committee reported out "stop-gap" legislation until it could go into the various problems in more detail. The 1946 law contained the following provisions:

1. Employer and employee contribution rates for old age and survivors' insurance were frozen at 1 percent again for 1947.

2. The Federal old-age and survivors' insurance provisions were amended by provisions with respect to veterans who die

within 3 years after discharge. In general, this guarantees survivors of veterans the same survivors' insurance benefits they would have enjoyed had the veteran died fully insured under the insurance program, with not less than \$160 per month average wages. The guaranteed insured status is not available when the survivors are entitled to compensation from the Veterans Administration.

3. The Federal Unemployment Tax Act of the Internal Revenue code was amended so as to include maritime employment, and the states were authorized, under specified conditions to cover maritime employment under state unemployment insurance laws. Because benefits under regular state coverage, newly established as a result of the law, were not payable immediately, the law also provided for the payment of benefits at Federal expense during a temporary period up to June 30, 1949, under a new title XIII of the Social Security Act ("Re-conversion Unemployment Benefits for Seamen"). Unemployed seamen with Federal maritime service credit because of service on vessels operated by the Maritime Commission became eligible for unemployment insurance, using such credit for benefits under state unemployment insurance laws.

4. The amount of Federal grants to the states under title V of the Social Security Act (maternal and child health, crippled children, and child welfare) was increased from \$11,200,000 annually to \$22,000,000, the grants for these purposes to the Virgin Islands were extended, certain technical changes facilitating payments and adjusting certain minor inequities under old age and survivors' insurance were made, and nine states which have collected contributions from employees under state unemployment insurance laws were permitted to withdraw such contributions from the Federal Unemployment Trust Fund and use it to finance state disability insurance benefits.

5. Increased Federal funds to the states for the 15-month period October 1, 1946, to December 31, 1947, were provided under the public assistance titles of the Social Security Act by (a) increasing the maximum Federal contribution from \$20 a month for the aged and the blind to \$25 and for dependent

children from \$9 for the first child and \$6 for each additional child to \$13.50 and \$9, respectively; and (b) by increasing the Federal share of state assistance payments from one half of all state expenditures up to \$40 per individual for the aged and the blind and \$18 for the first child and \$12 for each additional child, to two thirds of all state expenditures up to an average of \$15 for the aged and the blind and one half of such additional expenditures up to \$45 for an individual, and to two thirds up to an average of \$9 per child and one half of such additional expenditures up to \$24 for one child and \$15 for each additional child.

In 1947 Congress amended the Social Security Act to freeze the old age and survivors' insurance contributions at 1 percent each on employers and employees for 1948 and 1949, 1½ percent each for 1950 and 1951, and 2 percent thereafter; to continue the George loan fund for unemployment insurance until January 1, 1950; and to continue the 1946 increases for public assistance until June 30, 1950.

In 1948 Congress amended the Social Security Act by enacting a law, over the President's veto, which excludes certain adult news-vendors from both old age and survivors' insurance and the Federal Unemployment Tax Act. A second law passed by Congress in 1948, also over the President's veto, amended the definition of "employee" in the Social Security Act so as to define it in the restrictive terms of the "usual common law rules applicable in determining the employer-employee relationship." It also increased the public assistance payments effective October 1, 1948 to the needy aged and blind to three fourths of the first \$20 of the average payment and in the case of dependent children, to three fourths of the first \$12 average per child. The Federal government pays one half of the total above these amounts up to \$50 a month for the aged and the blind and \$27 for the first child in a family and \$18 for each additional child.

With respect to administration an important development was the establishment of the Federal Security Agency in 1939 by President Roosevelt under a Reorganization Plan. The

Social Security Board was placed in the Federal Security Agency on July 1, 1939, and the United States Employment Service was transferred from the Department of Labor to the Social Security Board. In 1946 the Social Security Board was abolished under a Reorganization Plan and all of the functions of the Board transferred to the Federal Security Administrator. The Administrator then created the office of Commissioner for Social Security to handle all social security matters, including supervision of the Children's Bureau transferred from the Department of Labor.

## A BRIEF EXPLANATION OF THE ACT

*Social Security. A Brief Explanation of the Social Security Act.*  
Social Security Administration,  
1947.

HAVING STUDIED the recommendations of the Committee on Economic Security, Congress in 1935 passed the Social Security Act by a large majority. The act was amended in 1939 and later. As it stands, the Social Security Act consists of eight distinct programs, all with the same basic objective. The cardinal aims of social security are to keep individuals and families from destitution, to keep families together, to give children the opportunity of growing up in their own homes.

The eight programs may be grouped under three heads:

### SOCIAL INSURANCE:

- (a) Unemployment insurance
- (b) Old-age and survivors insurance

### PUBLIC ASSISTANCE TO THE NEEDY:

- (a) Old-age assistance
- (b) Aid to the needy blind
- (c) Aid to dependent children

### CHILDREN'S SERVICES:

- (a) Maternal and child-health services
- (b) Services for crippled children
- (c) Child-welfare services

The Social Security Act is a Federal law, but the Federal Government operates only one of the programs—old-age and survivors

insurance. The other seven programs are operated by the States, with the Federal Government cooperating and contributing funds.

Two Federal agencies participate in the programs. The Social Security Administration of the Federal Security Agency administers, with the United States Treasury, the old-age and survivors insurance program. The Social Security Administration participates also in unemployment insurance and in public assistance. It is the Administration's duty under the law to examine State programs and their administration, and, if they conform to the act, to certify to the Treasury the payment of Federal grants to the States.

The Social Security Administration, through its Children's Bureau, cooperates with the States in the three child-health and welfare programs. In all these programs the United States Treasury handles the Federal money concerned.

### **Unemployment insurance**

*Unemployment insurance a Federal-State system.* Unemployment insurance was established by the Social Security Act of 1935 as a Federal-State system. The act levied a 3-percent excise tax on pay rolls of all employers in commerce and industry who employed eight or more workers during 20 or more weeks of the year. Since unemployment insurance was designed as a Federal-State system, the Social Security Act further provided that if a State passed an unemployment insurance law that met the basic provisions of the Federal act, 2.7 percent of the 3-percent tax could be diverted into a special State fund for the payment of unemployment insurance benefits.

This tax-offset provision resulted in the speedy passage of unemployment insurance laws in all 48 States, the District of Columbia, Alaska, and Hawaii. Originally, all States taxed covered employers' 2.7 percent of pay rolls, but in many States employers who experienced little or no unemployment in their establishments were excused from paying the full 2.7 tax.

Each State or Territory is required by Federal law to deposit its collections from its unemployment insurance law in the Unemployment Trust Fund in the United States Treasury, where it is kept in separate accounts for each State. A State may draw on this fund at any time, but only to pay unemployment benefits.

The law of each State specifies who may receive benefits; how such workers shall qualify; how much they may receive each week; and for how many weeks they may receive it. The State unemploy-

ment insurance agency makes the rules for the payment of benefits, handles the claims of unemployed workers, and decides in each particular case whether benefits shall be paid.

The duties of the Social Security Administration and the United States Treasury in this program have to do chiefly with the overall standards and the grant of funds for the system. In order that employers may continue to obtain the 2.7-percent tax offset of the 3-percent Federal tax by making whatever contributions they are required by State law to make to the State unemployment insurance fund, the State unemployment insurance system must continue to conform to the general requirements in the Federal law. The State collects its part of the tax at the rates assigned individual employers under the experience-rating provisions of the State laws (or on the basis of a uniform rate for all employers), while the United States Treasury collects the 0.3-percent remainder. Each year Congress appropriates funds for the administration of the State unemployment insurance laws and, provided the State law and its administration meet the general requirements of the Social Security Act, the Social Security Administration authorizes the Treasury to pay from these funds the amounts needed by each State for the proper and efficient administration of its unemployment insurance law.

*Requirements for unemployment benefits.* The provisions of the various State unemployment insurance laws differ considerably, but in general an unemployed worker is entitled to benefits if he meets the following requirements:

1. He must register for work at a public employment office and file his claim for benefits.

2. He must have worked previously on a job covered by the State law. This usually includes jobs in factories, shops, mines, mills, stores, offices, or other places of private industry and commerce, including banks and building-and-loan associations. In less than half the States the law applies only to employment in concerns that have eight or more persons on the pay roll during 20 weeks of the year. In the other States it also applies to jobs in smaller establishments.

3. He must have a certain amount of "wage credits"—which means he must have had a certain amount of pay or work on covered jobs during the year or two before he lost his job or was laid off.

4. He must be able to work. In general, unemployment insurance benefits are not payable to workers who are sick or *unable* to work for any other reason, although a few States pay benefits to workers who become ill after they are unemployed and continue

paying the benefits, within the legal limits, until the worker refuses the offer of a suitable job.

5. He must be available for work and must be ready and willing to take a job if a suitable one is offered.

*Amount of benefits.* The amount of the weekly benefit payment a worker may receive while unemployed varies according to the State. Usually, however, it is about half the worker's full-time weekly pay—except that there is a top and a bottom limit.

*To claim benefits.* An unemployed worker must file his claim for benefits at an office maintained by each State for this purpose. In addition, he must register for a job at the State employment office. The employment service and unemployment insurance offices are usually situated in the same building. These services are free. In places where there is no permanent job-service office, workers can find out about the service in that locality by inquiring at the post office. Claims may be filed in any State, regardless of where the worker was previously employed.

If the worker gets a full-time job, he will not, of course, be entitled to benefits. But if no job is found within a certain "waiting period" after he files his claim—1 or 2 weeks, depending upon the State law—his benefit payments will begin for the following week.

A worker who has been employed in several States, or who moves into a new State and finds himself out of a job, must do the same thing he would do if he had been working in the same State all the time. He must go to the nearest office of the employment service to file his insurance benefit claim and register for a job. There he should explain about his work in other States. The State employment security agency examines his claim and forwards it to the other State or States in which he may be qualified. Any benefits to which he may be entitled under another State law are usually paid to him by check sent directly from the State that owes them.

*Disqualification.* A worker may be disqualified for benefits—even though he has earned the necessary wage credits—for any of the following reasons:

1. If he quits his job voluntarily without good cause. (In many States the law says "without good cause attributable to the employer" or "connected with the work.")

2. If he was discharged for misconduct in connection with his work.

3. If he refused or failed, without good cause, to apply for or accept an offer of suitable work. (What is considered "suitable" depends on the State.)

4. If he is unemployed because of a stoppage of work as the result of a labor dispute.

No worker may be denied benefits because he refuses to accept a job under certain conditions where labor disputes or labor standards are involved.

Disqualification in some States amounts simply to a postponement of benefits for a few weeks; in others benefits are reduced as well as postponed. In a few States all benefit rights may be canceled, so that a worker cannot draw benefits until he has earned enough credits to qualify again.

*Right of appeal.* Workers have the right of appeal within a certain time limit. If a worker feels that the decision on his claim is wrong, he should get in touch with the office where he filed his claim and file an appeal. There is no charge for this. In most States the appeal must be filed within 5 days after the worker is notified of the decision on a claim.

### Old-age and survivors insurance

*A Federal system.* Old-age and survivors insurance is a Federal program operated by the Social Security Administration and the United States Treasury. Like unemployment insurance it is a program only for wage earners in private industry and commerce—in factories, shops, mines, mills, stores, offices, banks, building-and-loan associations, American ships, etc. The program provides regular monthly benefits for insured workers and their families when the wage earner is old and stops work, or when he dies at whatever age. Benefits are paid out of a trust fund, which is built up from special taxes on employers and employees. The Federal old-age and survivors insurance trust fund is managed by a board of trustees composed of the Secretary of the Treasury, the Secretary of Labor, and the Commissioner for Social Security of the Federal Security Agency.

Here is how the system works. Every pay day every worker in a covered job pays a small percentage of his wages—not counting wages over \$3,000 a year—as a premium on his old-age and survivors insurance. The premium is deducted from the worker's pay by his employer, and the employer himself pays an equal sum. At present the rate both for the employer and for the employee is 1 percent, scheduled to go up to 3 percent by 1949. Four times a year the employer sends both contributions to the Federal Government. Together with the money, he sends a report of the wages



paid the worker—up to \$3,000 a year—to be duly entered in his social security account. The Social Security Administration keeps each worker's account under his name and social security number, the same number as on his social security card.

*Benefits based on "average monthly wage."* The reason the worker's wages are so carefully recorded is that the amount of the insurance benefit payable under the program is based primarily on his "average monthly wage" in covered employment—up to \$250 a month. This average is arrived at by dividing the total wages credited to his account by the number of months from January 1, 1937, when the program began, or from age 22, if that was later, to death or the time after age 65 at which the worker would qualify for the highest benefits possible on his wage record. Wages do not include earnings in the 2 years, 1937 and 1938, after attainment of age 65, nor do months include those in 1937 and 1938 after the calendar quarter in which the worker reached 65. However, months in all of the calendar quarters in which a worker younger than 22 was paid \$50 or more in wages in covered unemployment are included. (A calendar quarter is the 3-month period beginning January 1, April 1, July 1, or October 1 of any year.) The "average monthly wage" is determined when the claim is filed.

*Retirement benefits.* Monthly retirement benefits are payable to:

1. The wage earner when he is 65 or older and is not working.
2. His wife when she is 65.
3. His unmarried dependent children under 18.

To qualify for these benefits a worker must be "fully insured." A wage earner is fully insured if he has been paid \$50 or more in covered employment in each of at least half as many calendar quarters as there are between January 1, 1937, when the program began, and the quarter in which he becomes 65 or dies. If he became 21 on or after January 1, 1937, however, he need only have been paid \$50 or more in at least half the number of complete calendar quarters as there are between his twenty-first birthday and the time he becomes 65 or dies.

There is a minimum requirement that a worker shall have at least 6 quarters of coverage to be insured. Once a wage earner has acquired 40 quarters of coverage, he is "fully insured" for life.

*Survivors' benefits.* Monthly benefits are payable to certain survivors of insured workers, no matter at what age the worker dies. In the determination of insured status for payment of survivors' benefits, and in the computation of the average monthly wage on which those benefits are based, wages earned in employment covered by the Railroad Retirement Act will be included.

This is in accordance with an amendment to the Railroad Retirement Act effective January 1, 1947.

Benefits payable after that date under either the survivors' insurance provisions of the Railroad Retirement Act or the old-age and survivors insurance program will be based on wages earned under both programs. Usually, where a "current connection with the railroad industry" is established—for example, where the worker was engaged in railroad employment in not less than 12 months in the 30 consecutive calendar months preceding his death—the Railroad Retirement Board will administer benefits. Where such a connection is not established, and the worker was insured, benefits based on his earnings in railroad employment and employment covered by old-age and survivors insurance will be payable by the Social Security Administration.

\* \* \*

Monthly old-age and survivors insurance benefits are payable to the following survivors of the fully insured worker:

1. His unmarried dependent children under 18.
2. His widow of any age while she has children in her care who are entitled to benefits if she has not remarried.
3. His widow when she reaches the age of 65 if she has not remarried.
4. His dependent parents, aged 65, if the worker leaves no widow or child who could ever become entitled to benefits.

*For children under 18 and widows with such children in their care the law provides monthly benefits even when the worker was only "currently insured."* A worker has died currently insured if he had a record of at least six calendar quarters of \$50 earnings in a covered job in about the last 3 years of his life. (Railroad employment may also be counted, as outlined above.)

A lump-sum death benefit is payable in the case of either a "fully" or "currently insured" person when he leaves no survivor immediately eligible for monthly payments at the time of his death. The lump-sum payment may go to the widow or widower who was living with the deceased wage earner at the time of his death. If the worker is not survived by any such relative, the lump sum may be paid in reimbursement to those who paid the burial expenses.

Old-age and survivors insurance benefits extend for longer periods, generally, than unemployment benefits. This is because unemployment in normal times lasts a relatively short time, whereas the family income may stop permanently or for a long time when the breadwinner becomes too old to work or dies. Generally speaking, retired workers, their aged wives, aged widows, and parents 65 years old or over receive monthly benefits until death.

Children may receive them until they are 18, and their mothers, if under 65, until the youngest child is 18.

*Stoppage of benefits.* A worker's retirement benefit and the benefits of his wife and children are suspended for any month during which the worker earns more than \$14.99 in covered employment. Any retirement or survivor benefits are suspended for any month in which the person receiving the benefit earns more than this sum on a covered job. A child's monthly benefits may continue, of course, even though the mother earns more than \$14.99 a month in covered employment; a widow's benefits continue even when her child earns more than this sum on a covered job.

A beneficiary may go on and off the benefit rolls from time to time, as work opportunities, health, and other circumstances affect him. He may, however, work on a job not covered by this insurance program, or may run a business of his own, and continue to receive his insurance benefits, no matter how much he may earn.

There are other circumstances under which benefits are stopped. Benefits are stopped for a woman when she remarries or becomes divorced (unless she has earned them on her own account). A child's benefits end when he marries or, in certain cases, when he is adopted.

*Figuring the benefits.* The amount of the worker's monthly benefit—called the primary benefit—is based on his "average monthly wage" up to \$250. The benefit is figured by taking 40 percent of the first \$50 of his average monthly wage, and adding 10 percent of the remainder up to \$200. Then 1 percent of this total is added for each year in which he was paid \$200 or more on covered jobs. If this benefit amount comes to less than \$10, the primary benefit is always raised to \$10. The average primary benefit at the beginning of 1947 was \$24.55.

The benefits payable to the worker's family are figured from his primary benefit. A widow's monthly benefit is three-fourths of the benefit to which the worker would have been entitled. For all others the monthly payment is equal to half the primary benefit.

The total monthly benefits that may be paid on one worker's account may not be less than \$10, nor more than twice the primary benefit or 80 percent of the worker's "average monthly wage" or \$85, whichever is the least.

The lump-sum death benefit is six times the monthly benefit to which the worker would have been entitled. However, when it is paid, not to a widow or widower, but in reimbursement for funeral expenses, it may be less than six times the worker's benefit, since it cannot exceed the amount actually paid for the funeral.

*To claim benefits.* Claims for old-age and survivors' benefits

must be filed at a local office of the Social Security Administration. There workers and their families will get, free of charge, all the help they need to make out their claim papers so as to get everything the law allows. It is not necessary to pay anyone to help obtain benefits; if a person is entitled to benefits, he will get them by filing a claim. If, because of sickness or distance, he cannot call in person, he should get the address of the nearest Social Security Administration office from the post office and write at once.

An insured worker who reaches the age of 65 does not have to retire. However, on reaching this age or later, it is to his advantage to file a claim immediately, if his earnings in covered employment are not more than \$14.99 a month. He can draw benefits for any such month if he files an application on time. If he works after filing, he can have his benefit recomputed at a later date, and if the benefit is higher, he will receive the higher amount. The field office can advise him on this question.

Whether or not he files claim at 65, his benefit amount may be computed or recomputed later, when he does decide to retire, as of the time after age 65 when the highest benefit would have been payable in accordance with his wage record.

Claims for monthly survivors' benefits should be filed immediately after the insured person's death. Payments may be made for the month in which the worker died if the claim is filed soon enough. Monthly retirement and survivor benefits are retroactive for only the 3 months prior to the month of filing.

Claim for the lump-sum death benefit must be made within 2 years after the death of the insured person.

*Appeals.* A claimant has the right of appeal. If he is not satisfied with a decision on his claim, he should notify the nearest office of the Social Security Administration. He may obtain review by a referee. If still not satisfied, he may ask for review by the Appeals Council which has been set up by the Social Security Administration in Washington. If not satisfied then, he may take his case to the Federal courts.

*Survivors of World War II veterans.* Under a 1946 amendment to the Social Security Act, survivors of qualified veterans of World War II may receive benefits under the old-age and survivors insurance program.

\* \* \*

Such a veteran is deemed to have died a fully insured person and to have had an average monthly wage of not less than \$160. Benefits computed on the basis of the \$160 average monthly wage are increased by 1 percent for each year in which the veteran served 30 days or more in the armed forces after September 16, 1940.

As in the case of any other worker who dies fully insured, monthly benefits may be paid to the veteran's unmarried dependent children under age 18 and to his young widow with such children in her care, to his widow at age 65 if she does not remarry, or to his aged dependent parents. Where no one is immediately eligible for monthly benefits, a lump-sum payment may be made.

Benefits under the veterans' amendments are payable to the qualified survivors of the veteran only when compensation or pensions based on the death of the veteran are not payable by the Veterans Administration. National service life insurance is not considered Veterans Administration compensation or pension.

### Public assistance

Assistance to those who cannot support themselves because they are too old or too young or because they have lost their sight has long been a public responsibility. Time was when towns or counties were expected to carry the whole burden alone. Later some States began to help their communities provide public assistance. With the passage of the Social Security Act the problem was recognized as a Nation-wide responsibility.

Public assistance is a Federal-State program. Its purpose is to provide monthly cash allowances for old people who lack means of support, for blind people who need assistance, and for children who have been deprived of parental care or support. In this way public assistance enables several million needy men, women, and children to go on living at home, among their own families and friends.

Under the Social Security Act the Federal Government and the State Government share in paying for public assistance and in seeing that it is properly administered. The Federal Government sets a general pattern and shares the cost with every State that comes into this plan. Following the Federal pattern, each State makes its own program. Since the purpose of the public assistance program is to provide for people living at home, allowances towards which the Federal Government contributes may not be given to persons living in public institutions. But this does not mean that assistance must stop during a temporary stay in a hospital.

*Determining the size of payments.* The State—not the Federal Government—decides who shall get aid and how much shall be paid to each person. To make sure that all applicants get fair and equal treatment, the Social Security Act requires that public assistance shall be given in relation to the need in each case.

In determining the need of any person applying for assistance, the State, through local offices, takes into consideration several

things. First, all his resources and income from every source, including contributions from relatives if they are actually helping with his support. Next, his property. The amount of property or other resources a person may possess without disqualifying him for assistance is decided by each State and differs from one State to another.

Finally, to determine the size of the payment a person shall receive, the State takes into consideration his requirements for housing, food, clothing, medical care, and other necessary items. The size of the payment depends in part on the amount of money the State has available for this purpose and the number of people who need assistance at any particular time.

The monthly allowances paid by the States under the public assistance programs are not to be confused with the monthly *insurance* payments under the Federal old-age and survivors insurance program. Benefits paid to retired insured wage earners and dependents of retired or deceased wage earners under the old-age and survivor's insurance program are based on the wages earned by the worker in jobs covered by the insurance program. Public assistance benefits are provided solely on the basis of need.

*Appeals.* Applicants for public assistance have the right of appeal, and each State provides for fair hearings before the State agency. Thus any person for whom aid has been denied, inadequately provided, reduced, or withdrawn has an opportunity for an impartial review of his case without charge.

*Old-age assistance.* Today every State has an assistance program for needy men and women 65 years of age or over. The payments made to these old people are made simply on the basis of need. They are *not* the same as Federal old-age *insurance* payments, which are based on wages received during years of work in covered employment.

Although requirements for getting aid are not the same in all States, all but one specify that the applicant must be 65 years old or more. Many States give assistance only to citizens. But no one who is a citizen may be refused aid for any reason connected with his citizenship. He may not, for example, be refused aid for the reason that he has not been a citizen long enough.

Most States have a residence requirement; that is, a person must have lived in the State for a certain length of time in order to get old-age assistance. Often this residence requirement is for 5 years—for the year just before asking for aid and for 4 other years, not necessarily consecutive, within the last 9. A State cannot require more residence than this; more than one-third of the States require

less. No one may be refused aid on the ground that he has not lived long enough in a particular town or county.

Application for old-age assistance is usually made through the local welfare office. The public assistance officers consider each case under the State's law and regulations. If a person is found to be eligible for assistance, the State or local agency makes the payments, the amount depending upon his need and the amount of money available for old-age assistance purposes.

*Aid to the needy blind.* Nearly all the States have programs of aid to the needy blind, with the Federal Government sharing the cost of the monthly cash payments. Under the program the State, through local offices, decides who shall be aided. But, in general, payments are made to needy persons who are totally blind or who have so little sight that they are unable to earn a living.

Some of the States fix no age limit for aid to the blind. Many of them, however, give this kind of aid only to adults. Blind children and young people may be cared for under other programs.

Requirements as to citizenship and residence are in general less rigid than in the case of old-age assistance. Only a few States require that a blind person must be a citizen to get aid. And many States do not require a definite number of years of residence, if the person applying for aid became blind while living in the State.

*Aid to dependent children.* Home and family are the most important things to a child. Yet sometimes, when death or some other disaster leaves the family without a bread-winner, children lose the loving care that only their own family can give them. It is here that the program for aid to dependent children comes in. This program makes it possible for children to remain with their mothers, or with some other close relative.

All States but one have programs for aid to dependent children that meet the requirements of the Social Security Act and consequently receive Federal grants for this purpose. As with old-age assistance and aid to the needy blind, the State—not the Federal Government—decides which children shall be helped and how much shall be paid to each family. However, nearly all of the States that receive Federal money give aid to dependent children at least up to the age of 16. If the child is still in school, the Federal Government will continue to share the cost until he is 18; and most of the States are providing aid up to this age.

Most of the States require that a dependent child must have

lived in the State for the year just before the application for assistance. If the child is less than 1 year old, he may not be disqualified on the basis of residence if his mother lived in the State 1 year prior to his birth. No State can require more than 1 year of State residence, and in a few States provisions are even more liberal. No child may be refused aid on the ground that he has not lived long enough in a particular town or county.

To receive aid in which the Federal Government shares, the child must be living with a relative. In most States this relative may be the mother, father, brother, sister, grandparent, aunt, or uncle.

### Children's services under the Social Security Act

Under the Social Security Act the Federal Government participates in three maternal and child-welfare programs: (a) Maternal and child-health services; (b) services for crippled children; (c) child-welfare services. These services are only a part of the total children's program within each State. They are included in the Social Security Act because the basic purpose of these services, like that of aid to dependent children, is to make it possible for a child's own family to nurture him through the years of childhood. The role of the Federal Government in these programs is to strengthen the State programs. To this end, it aids the States in the extension and improvement of services for mothers and children. The Children's Bureau, which is one of the four operating bureaus of the Social Security Administration, is responsible for cooperating with the States in these services.

*Maternal and child-health services.* All the States now have programs of maternal and child-health services, although services are not yet available in every county. That these programs are badly needed is evidenced by the fact that yearly some 6,000 mothers die from causes associated with childbirth, and more than 100,000 infants die during the first year of life, and many children during childhood suffer from conditions that interfere with their growth and general health. In rural areas the problem is especially serious. There, good maternity care and health services for children are far less available than in the cities. For this reason the State programs for maternal and child-health services emphasize the work in rural areas, as also in areas suffering from economic distress.

Each State health agency makes its own annual plan in accordance with the particular needs in the State and submits it to the Children's Bureau for approval. Each State matches in part the



Federal funds granted. But part of the fund is granted without requiring the State to match it. This is done on the basis of the State's need for financial help in carrying out its plan.

Under the State plan, local health departments promote the health of mothers and children through health supervision by physicians and dentists in prenatal clinics, child-health conferences, and health services for school children, and through public-health nursing service in clinics, home visits, and schools. In a few localities, medical care and home-delivery nursing service are provided for mothers in families that cannot obtain such care unaided. A large part of the program is educational. Postgraduate education in the care of the mother and child is given to doctors, dentists, and public-health nurses and other health workers. Mothers are advised how to care for themselves and their children, and fathers how to cooperate in the matter of family health. As high standards of care for the health of mother and children become a family custom, lasting protection is given to the health of both family and community.

Inquiry about health services for mothers and children should be made at the local health department.

*Services for crippled children.* Before the Social Security Act was passed, one-fourth of the States did nothing at all for crippled children. In many other States the appropriations were so small that only a small number of the hundreds of thousands of crippled children throughout the country could receive care. Now all the States are participating in the crippled children's program. Under this program a country-wide effort is being made to locate crippled children and bring them to diagnostic clinics in rural as well as urban areas. In accordance with the diagnosis for each child, the State crippled children's agency arranges for medical and surgical treatment, hospitalization, physical therapy, and other services needed for the child's physical restoration and social adjustment.

Each State plan is submitted to the Chief of the Children's Bureau for approval. Each State matches in part the Federal funds granted. The rest of the Federal funds are granted without matching, this being done on the basis of the financial need of the State for help in carrying out the State plan.

Inquiry concerning care for crippled children should be made at the local health department or welfare agency.

*Child-welfare services.* Security for children must be the heart of any social security plan. The Social Security Act provides for the development of local child-welfare services to help the least secure children—those who are homeless, dependent, or neglected, and those who are in danger of becoming delinquent. There is today in every State, a program for child-welfare services for such children, operating on a Federal-State basis. Each State public-welfare agency

makes its own annual plan, which includes provision for State services to encourage the development of community child-welfare organization and, in selected rural areas or areas of economic need, for aid in maintaining local child-welfare services, and submits it to the Children's Bureau for approval. When the State plan has been approved by the Chief of the Children's Bureau, Federal grants are made to carry on the program planned.

The child-welfare worker in the county or local welfare agency studies the problems of the child who is referred by the schools, the police, the juvenile court, the child's family, or the neighbors, and arranges to meet the child's need through the cooperation of his family or by drawing on community resources for the necessary service or care.

Inquiry about child-welfare services should be made at the local welfare agency.

## DEVELOPMENTS IN THE SOCIAL SECURITY PROGRAM

J. Douglas Brown. Reprinted from *The Proceedings*. Vol. xxi, No. 2, January, 1945, "Shaping The Economic Future," published by the Academy of Political Science, Columbia University, New York City.

THE UNITED STATES faces the period of post-war readjustment with a spotty and inadequate system of social security protection. We may be able to ride out without serious distress the brief spells of heavy unemployment which may follow immediately upon the termination of the wars in Europe and in the Pacific. But it is difficult to see how our present social security program could save us from a critical degree of hardship in a major post-war depression. Meanwhile, we are losing the advantage of a well-developed social security system in maintaining and enhancing the human resources of the country. Further, we are depriving millions of our people, as individuals, of the satisfactions of planned, self-reliant protection against the major risks of life.

While it is not my purpose to enumerate in detail the shortcomings of our present system of social security, my pessimistic premise should be supported in brief outline, at least. Let us take the major risks which a balanced social security program should cover, and check the extent to which protection is afforded in America today.

## **Dependent old age**

While we have done more in the United States to safeguard the old than any other group, our old age insurance system leaves unprotected millions of persons in farm, domestic and government employment, self-employment, and other excluded areas. Due to occasional employment in uncovered activities, to unemployment and illness, a large number of persons will reach 65 with but spotty earnings' records in the vast files in Baltimore. Some of these will get no benefits at all; others but meager amounts. A most serious cause of broken records, to date, is service with the armed forces. It is hoped that this situation, at least, will be remedied by early legislation.

To buttress our old age insurance program, we have a federal-state program of old age assistance. Due to the vagaries of sentiment, politics, and the distribution of aged persons, the amounts paid under these assistance programs vary from extravagant to penurious. In some states, old age assistance is virtually an automatic "handout"; in others, a carefully administered relief system.

## **Dependent survivorship**

Since 1939, protection for widows with children or for aged widows of insured persons has been provided under the federal old age insurance system. This improvement is limited in effectiveness by the same shortcomings in coverage that exist in the basic insurance scheme. Exclusions from coverage and broken wage records narrow sharply the boundaries of effective protection. It is true that assistance payments to widows with children greatly extend the area of government aid. But, without the advantage of the vote, the children needing such aid have not been able to compete with the old in securing liberal grants.

## **Unemployment**

We have a federal-state system of unemployment insurance which is a marvel of complexity and diversity in standards of contributions, benefits, coverage and administration. The oldest social security systems in Europe should appear simple to the person who masters the idiosyncracies developed by the fifty-odd American schemes in a period of less than ten years. We have had a growing overemphasis on rates of contribution and reserves and a grave underemphasis on the rates and duration of benefits. Coverage under unemployment insurance, again, leaves whole segments of

our population unprotected. Our system of separate state reserves is illogical, expensive and wasteful.

With these limitations in the protection afforded by unemployment insurance, we might well plan more carefully our measures for emergency unemployment relief. Here we have a past—but little but talk about the future. The serious question whether to use direct relief or work relief, or both, has not been resolved in American policy. Discussions of WPA have become distasteful. The planning of public works, to be initiated in time of unemployment, is being encouraged by Congressional reports and private committees but does not seem to have struck deep into the consciousness of our legislators.

### **Dependency during disability**

Apart from private action or public relief, the only lighter spot among the shadows in this field is a conglomeration of state programs of workmen's compensation. These vary widely in adequacy and coverage. Many are hag-ridden by excessive litigation, sharp insurance practice, unfortunate medical arrangements, and a lack of common understanding, by all parties concerned, of a definite social policy. Progressive employers are moving faster than government in recognizing the need for improved protection in this field.

So far as government action is concerned, we have done almost nothing in providing the means for self-reliant protection in time of temporary illness or disability not arising out of employment. An even more serious gap is the absence of protection to those becoming permanently and totally disabled from non-industrial causes. Except for such special groups as the veterans or the blind, we are still relying on general relief or institutional care until the person reaches old age.

### **Medical care and hospitalization**

It is in this respect that the social security system of the United States appears a sad sight indeed. Like a wagon with three wheels—not all of them too adequate—the system drags along failing to carry the load it should and wasting motive power. With one wheel absent, the wagon tips precariously and threatens to pitch into the ditch whatever load the other wheels could carry. Insurances against dependent old age, survivorship and unemployment fail to do their job effectively so long as the self-sufficiency of workers is destroyed by heavy financial drains in time of illness.

With the finest medical profession and techniques in the world,

we do well by our prosperous and our poor. Those injured in industry receive a varying quality of service. But for the great body of self-reliant wage-earners and self-employed, their wives and their children, we are still depending in large measure upon a type of distribution to provide medical care which we would consider sadly inadequate for any other important commodity or service. The wage-earner may buy his food or clothing in a chain, department or mail-order store, rent a home in an apartment or real estate development, buy a car or a radio from a national corporation, and send his child to a fine public school or college. In all these expenditures, he obtains the advantages of shared overheads, modern business methods, free competition, and specialization. But when sickness strikes, the chances are that he must depend upon a one-man shop to meet his needs, unless the case is serious enough to warrant the heavy expense of hospitalization. The bootblack, news-dealer, or radio repairman can probably render good and economical service under such a system, but by 1944, there are few professions that have not found group or institutional practice the norm rather than the exception.

Among the bright spots in this discouraging picture is the progress made in private group purchase of hospital care and, in a lesser degree, of medical care, whether by community groups or by industrial groups\* with the aid of employers or trade unions. But such progress remains far from the goal that only public action can assure. The fourth wheel of the wagon remains scarcely a hub, until the government takes a hand in building a better.

With this premise that the social security system of the United States is spotty and inadequate and that it falls far short in the task of sustaining and enhancing our human resources and of affording to our people the satisfactions of planned, self-reliant protection, the question arises, why this discouraging record in a rich, enlightened country that has proved itself one of the most generous in the world? After mulling over that question for a decade or more, I would like to offer some tentative conclusions. I am willing to alter conclusions on the slightest provocation, should the coming months and years show a change in public attitude. The change is bound to come, and I hope most sincerely, before another great depression is upon us.

1. The American people have not yet come to realize the value of our country's *human* resources to anywhere near the extent that we appreciate the value of our natural resources, advanced technology, or our political, economic and social institutions. In this we are far behind Great Britain, Northern Europe and Russia. We are closer in this respect to the Mediterranean countries. It may be

that we are still influenced in our thinking by the flood of new workers which arrived on every boat a generation or two ago. Even yet the farms and the hill country may seem able to furnish new hands to man the industrial centers of the country.

Perhaps a more palatable reason for our indifference to human resources, as such, is the political principle that all men are created equal. This becomes confused with the notion—far more understandable in the pioneer days of an agricultural economy—that each man is the master of his fate. In our desire to enhance the dignity of man as an individual, we have tended to forget man as the outstanding asset of an effective economy. We have been unwilling or unable to think of human beings as a great resource to be conserved and enhanced—not for themselves alone—but for the common good.

This indifference to human resources as a whole has led the American people to deal with the problems of social insecurity on a *subjective* basis. Our methods of attack have been conditioned far more by emotion than by objective, intelligent analysis. We may furnish extravagant aid to the dependent aged and yet become penurious in supporting and educating the dependent child whose contribution is still to be made. Our measures for protecting the insecure are fraught with paternalism and personal charity. Their adequacy often varies with the obviousness of the need—not its true extent. Public grants vary with the swing of popular emotion. We become confused by issues of individual merit and blame even in the midst of a serious business depression.

Exceptions to these generalizations are, of course, apparent. Among the more promising is the growth of a more balanced attitude on the part of many of our industrial corporations which have come to see the value of planned, mutual protection as a means of enhancing the human assets of the business. They realize that good will in individual cases must be supported by intelligent planning for the group.

Perhaps the war will arouse us as a nation to the value of our human resources. Wasteful as we have been, we are still blessed with vast and effective manpower to fight two great wars at once. But as we become older as a nation, we will need to exercise greater care in reducing the wastes of ill-health, disability, impaired morale and dependency. Our measures for social security should reflect this trend.

2. A second factor which has delayed American progress in developing a balanced system of social security is the overemphasis in this country upon the *relief* aspects of social security at the expense of better understanding and application of the device of *social in-*

*insurance*. This overemphasis grows out of our subjective approach to the problems of insecurity. We have been so much concerned about the dependent person that we have tended to ignore the final causes of dependency. Personal charity is a part of the morality and religion of all great civilizations. It is vital but by no means exclusive. There is nothing in religion or morality that requires us to stop with personal charity and not to prevent, as far as possible, the circumstances which make personal charity necessary.

Relief, whether public or private, appeals to the paternalism inherent in the American people. We *are* a generous people. Many more are willing to support social work than are ready to plan and support preventive public programs. It is more satisfaction to be a Good Samaritan than to patrol the highways. Many students of social security have, in sympathy with this general urge, overplayed relief and underplayed social insurance in their consideration of national policy. But this appeal of relief, because of the emotional content which gives it emphasis, is an unstable stimulus to progress in the field of social security. The interest of the general public in relief wanes rapidly as the emotion of giving or the desire to receive is no longer present. Shorn of its emotional content in a period of good times, relief becomes a dull if not unpleasant subject for any but the professional planner or administrator. It lacks the rational content of a social insurance program in which men participate in good times and bad as a means of *preventing* dependency.

It was, I believe, this contrast between the emotional content of the relief approach and the rational content of the social insurance approach which caused the elaborate report of the National Resources Planning Board on social security to receive so little public attention in this country at the very time that the Beveridge report on the same subject aroused widespread interest in Great Britain and throughout the world. Beveridge emphasized social insurance, something in which all could participate, all the time. It was an appeal to the intelligence of the British people, their desire for self-sufficiency and survival. The N.R.P.B. report discussed, at length, direct relief and work relief, about which in 1942 neither the future recipients nor the future supporters were emotionally concerned. The report failed to catch the truth that far more people are interested in intelligent and coöperative planning for their own future than in the form which public charity will take in some future emergency. By overemphasizing relief, the N.R.P.B. report did not appeal to the vast range of the American people—industrialists, wage-earners, shopkeepers and housewives—to whom a clear-cut proposition on social insurance would have made good

sense. If one has doubt, look to the growth of *private* insurance in this country.

3. My third suggestion as to why social security planning has lagged in this country is the hazy disregard for the preservation of *incentive* by many proponents of new legislation. The great majority of the American people believe that relief, as such, reduces incentive—and, by and large, they are right. The relief administrator has little opportunity to enhance incentive. He enters the scene too late. His approach to the incentive factor must in large measure be negative; to discourage resort to or continuance on relief. There have been many programs for training relief clients but, except for youth the results leave little room for enthusiasm.

For these reasons, the proponent of the relief approach tends to play down the importance of incentive in a framework of social security and to play up the determinant of need. The relationship of the relief grant to normal wages becomes far less important than assumed budgets, the number of dependents, and special allowances. The arrangement under social insurance that benefits are automatically related to past earnings seems hard-boiled to the person more interested in relief. The precious asset of incentive is discounted in an anxiety to match precise needs.

But any effective system of social security must enhance incentive, wherever possible, rather than impair it. Even America cannot waste that drive which has raised its standard of living over the years. The individual citizen must be aided in preserving his effectiveness and self-reliance. This can be done through social insurance under which eligibility and benefits are related to past earnings and productivity, and to probable future wages as well.

There has been much talk of "security" *vs.* "incentive" among those who question further extension of our social security program. In social insurance this supposed conflict is resolved. Incentive for most people arises out of the quest for security and more security, once its satisfactions are tasted. Security may mean a single room on First Avenue or a six-room house in Queens. Men will work hard to get either. They are willing to contribute to a social insurance program to make sure that they do not lose either, should illness or unemployment occur. It is because of this recognition of incentive and self-reliance that social insurance appeals to a wide range of American people left cold by talk of relief. Despite all the talk, few wage-earners like to go on relief, far less rely upon it in advance.

4. A fourth reason for the slower acceptance of social security planning in this country during the past few years has been, I believe, the tendency to ignore *costs*. This, again, arises from the over-



emphasis upon the relief approach in many discussions. Such discussions are likely to start with the pattern of individual need and work back to the cloth of national ability to pay. Since the total burden of relief at some future time is difficult to estimate, cost figures are often omitted. The presumption too easily becomes: if each individual needs so much, and there are so many individuals, the economy of the country should provide the sum arrived at by multiplication. This, unfortunately, is an approach more appropriate to the community-chest drive of a well-to-do suburban town than to a national economy burdened by the heavy drains of war.

This unrealistic handling of costs has lost support for social security proposals among the conservative, thrifty elements of our population, in industry, labor, agriculture and finance. These groups might be influenced by a reasoned appeal that the costs of maintaining the effectiveness of our human resources were so many dollars but that the returns in national welfare were in excess of these costs. Further, the cost of alternative proposals could then be discussed in terms of the sources of income to meet these costs. The area of contributory social insurance, with a large degree of self-financing, could be delimited and the areas of public relief defined. Without cost estimates, a plan of social security appears to many an impractical "theory" since, to the business man, storekeeper, farmer and housewife, cost is a part of day-to-day living.

Sir William Beveridge recognized this desire for cost figures in his proposals for the reorganization and expansion of the British system of social security. The report of our own National Resources Planning Board leaves our desire to see the price tag unsatisfied. There does not seem to be sufficient difference in either the wealth or the buying habits of the two countries to justify this contrast. But Sir William made social insurance the core of his program, whereas the National Resources Planning Board gave most emphasis to relief.

While many other factors could be suggested to explain the lag in social security developments in this country in recent years, the four reasons outlined lead, I believe, to one solid conclusion. We have not yet given the American people a thorough-going understanding of the function of social insurance as a means of conserving and enhancing our human resources and of affording the satisfaction of self-reliant security. We have confused them with much talk of relief and in the process have depended upon emotions rather than reason to sell our proposals. We have not demonstrated sufficiently the values of participation, year in, year out, which social insurance affords, nor have we put across to the more con-

servative of our citizens the advantages of social insurance as compared to relief in preserving incentive or making costs more definite.

In the development of our social security program in the United States, relief does have an important rôle to play. But the mechanism of social insurance seems to fit more closely the habits, attitudes and character of a productive, self-reliant people. The answer is, of course, a balanced program of social insurances covering old age, survivorship, temporary and permanent disability, unemployment and medical services, supplemented by relief or public assistance to fill in the gaps or to lengthen the period of protection in certain cases. When the features of such a balanced program are fully understood by the American people, I have little doubt as to the result. With such a program we could face a depression of major dimensions with less fear of drastic consequences.

### *ATTITUDE OF ORGANIZED GROUPS TOWARD SOCIAL INSURANCE*

Wilbur J. Cohen in Florence Peterson, *Survey of Labor Economics*. New York: Harper & Brothers, 1947.

THE INADEQUACIES of existing social security laws have given rise to the supplementation of benefits by private arrangements, such as those provided by unions, employers, and consumers' groups, and through collective bargaining. Some of these plans have been adopted as a stopgap, with the intention that they will be either abandoned or integrated into the social security program as the latter is expanded and further developed. Some private plans, on the other hand, are advocated for the purpose of discouraging the adoption of a general compulsory social insurance program. This is true of those advocating voluntary hospitalization insurance, voluntary medical care, and private disability insurance.

Life insurance companies have been the notable exception to the rule that existing private groups will oppose the enactment and improvement of the social security benefits with which they are directly concerned. This is because the existence of either old age or life insurance benefits under social security does not prevent life insurance companies from selling insurance, but actually gives them a sales argument for encouraging individuals to buy more private insurance. Because these insurance companies sell little or no per-

manent disability insurance, until very recently they have not opposed amending the law to cover such benefits under the old age and survivors' insurance program. Accident and health insurance companies oppose social security programs for temporary disability and health insurance, unless provision is made in the legislation to permit insurance companies to "contract out" to insure the risk because the introduction of such insurance administered exclusively as a public system would curtail their activities in this field.

### **Attitude of organized labor toward social insurance**

Organized labor at the present time strongly supports the principle of compulsory social insurance for all the major risks. This was not always true, however. At a conference on social insurance in 1916, Samuel Gompers, then president of the American Federation of Labor, endorsed compulsory workmen's compensation and old age pensions but opposed compulsory health and unemployment insurance. He stated that the introduction of such compulsory insurance "means that the workers must be subject to examinations, investigations, regulations and limitations. Their activities must be regulated in accordance with the standards set by Governmental agencies. To that we shall not stand idly by and give our assent." In other speeches he also implied that such insurance might undermine union activity and divert attention from its main efforts at improving wages, hours, and working conditions.

Although a number of the individual unions and state federations of labor had placed themselves on record in favor of compulsory social insurance, the A. F. of L. did not officially modify its position until its 1932 convention. At that time, after lengthy debate, the convention endorsed state unemployment insurance "and the supplementing of such state legislation by federal enactments." Specific endorsement of health and disability insurance followed during the next few years.

Although the Federation originally endorsed separate state unemployment insurance programs, in 1935 William Green, president of the A. F. of L., supported a federal unemployment insurance plan as a member of the Advisory Council on Economic Security. After the United States Supreme Court validated the Social Security Act in 1937, the Federation actively supported an outright federal unemployment insurance system. Organized labor's endorsement of a federal compulsory social insurance system for all risks, including health insurance, did not take place until 1943 when both the American Federation of Labor and the Congress of Industrial Or-

ganizations sponsored the Wagner-Murray-Dingell bill in the United States Congress.

The present attitude of organized labor toward social security is that a successful first step has been taken. Workers have become familiar with and have endorsed the social insurance principle of pooled risks to lessen individual hardship. They retain self-respect under a system which collects premiums in the years when they have earnings and entitles them to benefits when earnings stop. The most frequently expressed argument by labor organizations in support of social insurance is that the worker's right to protection is clear and undeniable; benefits are paid without regard to other resources and without a "needs" test. Because benefits are related to past earnings, they help families to maintain a standard of living approaching the standard they had when they were receiving current earnings. Also emphasized is the fact that the premiums which a worker pays give him a more direct and a stronger interest in the program than he would have if he were paying the same amount in the form of general taxes on his income or property. This view is accompanied by the belief that a program in which workers have a direct interest or "stake" is less apt to be subjected to changes which will endanger their rights as future beneficiaries.

Widespread endorsement of the principle of social insurance to compensate for the wage loss which results from the worker's unemployment, old age, or death indicates that organized labor believes that social insurance methods should be used in extending comparable protection to groups of workers not now covered, and in broadening the programs to include protection against other insurable risks. When the insurance programs have more extensive coverage and have been in existence for many years, relatively few families will be without protection; nevertheless, there will always be some individuals not able to do gainful work and hence share in social insurance protection. For those who cannot be covered by insurance programs, and for members covered by the insurance system who have special needs which require supplementation of their benefits, organized labor has urged an improved public assistance program as an essential part of a comprehensive social security setup.

### **Attitude of employers**

In general, employers' organizations did not take an official position for or against compulsory social insurance prior to 1935, although two decades earlier they had urged that employees as well as employers contribute to workmen's compensation. The Committee

on Economic Security appointed to its Advisory Council several employers who supported the Committee's proposals for unemployment and old age insurance. While the National Association of Manufacturers opposed the legislation in Congress, the National Retail Dry Goods Association supported it.

In 1938 representatives of employers signed a unanimous report, with representatives of organized labor and the public, urging extension and improvement of the compulsory federal old age insurance program. At the present time the national employer and labor organizations are in general agreement on certain specific social security recommendations such as extension of coverage. However, there continues to be disagreement on such issues as labor's demand for the establishment of a federal system of unemployment insurance, the elimination of experience rating in unemployment insurance, the enactment of compulsory health insurance, and the increase in the amount of the various insurance benefits. . . .

## SOCIAL SECURITY AND WELFARE FUNDS

Arthur J. Altmeyer, *Union Health and Welfare Funds*. National Industrial Conference Board, Studies in Business Economics, No. 8, 1947.

THE SUBJECT OF employee-benefit plans in relation to the basic social security program of the government is of very great interest to us in the Social Security Administration. The Social Security Act places upon us responsibility not only for administering the existing programs but also for "studying and making recommendations as to the most effective methods of providing economic security through social insurance, and as to legislation and matters of administrative policy concerning old-age pensions, unemployment compensation, accident compensation and related subjects."

We have an obligation, therefore, to be alert to current developments, lest we find ourselves in support of an old program merely because it is an established one, without reference to changing conditions and needs or the course of events.

### A decade of experience

We now have more than a decade of experience with the operation of our national old-age and survivors' insurance system. We

have recommended an expansion and strengthening of the existing system, to cover more people and more risks and to provide more adequate benefits. The concept underlying our recommendations is essentially unchanged from that which was reflected in the 1935 Act. It is that the compulsory public program should provide the basic security which a modern democracy must and can assure to all its citizens.

In a country as wealthy as ours, there are abundant opportunities for additional and supplementary protection beyond that provided in a basic social insurance system. The public program must, of necessity, be concerned with common needs and the major hazards. Individual savings, individually purchased insurance, group insurance and mutual benefit plans of many types have an important role to play in assuring individual families or particular groups of workers more adequate security.

### **Growth of supplementary plans**

I think some of us tend to forget at times that the effectiveness and value of supplementary security measures are largely dependent upon the existence of a basic program which can be supplemented. The multiplication of many special and limited plans is no real substitute for a basic program. This issue was debated at length in 1935 when the original Social Security Act was under consideration. There was considerable support for proposals which would have permitted the substitution of separate employer retirement plans for coverage under the basic public program. It was recognized that they would make difficult or impossible the assurance of basic security to workers who changed employment, and that there would still be room for special retirement plans to supplement the basic program.

Developments since 1935 have clearly demonstrated the wisdom of the decision reached in 1935. Passage of the Social Security Act, and the amendments of 1939 which applied the same principle to survivors' protection, has encouraged the development of supplementary retirement plans and the sale of group and individual life-insurance policies which build upon the minimum basic provisions of the public program.

### **Basic structure incomplete**

There are several factors to keep in mind in attempting to evaluate the current interest in voluntary health, welfare and retirement plans. Social insurance itself is an outgrowth of voluntary mutual

benefit arrangements. There is a long record of successful efforts by employers, and by unions, to develop special protection for their employees or their members. Provisions for such plans in collective-bargaining agreements represents in part the coalescing of these separate lines of development.

The particular character and force of the current pressure for health and welfare plans is in large measure a result of our failure to complete the structure of our basic social insurance system. Inadequacies in benefit amounts under old-age and survivors' insurance, especially in the face of rising living costs, have given added urgency to the demand for supplementary retirement plans. More significant has been the failure to extend the protection of our basic social security program to cover the risks of sickness and disability. Such extension was foreseen in 1935 as a necessary step toward a completed basic program. Many of the groups urging the quick development of voluntary health and welfare plans believe that our major goal should still be the establishment of an adequate basic public program. But until such a program is established, we must expect increasing pressure for voluntary benefit plans that will provide substitute protection for particular risks and for particular groups of workers.

It may be suggested that the extensive and widespread development of voluntary employee benefit plans should call for a reexamination of the basic concepts. I believe that such a reexamination would bring us again to the conclusion that we need a comprehensive basic social insurance program as a foundation on which to build additional protection.

We need this program in order to assure complete coverage for workers in small as well as large plants, and for unorganized workers as well as for workers whose unions are both strong and interested in security plans. It seems to me also desirable that all employers should share alike in the financing of basic benefits. Variation above the basic program provisions in employer contributions and in the benefits available to particular groups of workers can mean desirable flexibility and experimentation. I do not believe, however, that we can much longer afford the complete gaps in coverage and protection which inevitably result from voluntary provisions alone.

### **Coverage continuity needed**

A basic public system is necessary also to assure complete continuity in coverage, particularly in the case of retirement benefits. Mobility of labor is a necessary aspect of our economy and our way of life. Only a public program covering all employments can pro-

vide the necessary basic protection for those workers who move from job to job.

The importance of continuity of coverage is also evident in the case of permanent disability benefits. Relatively few private pension plans provide continuing disability benefits, and those which do necessarily require, as a condition of eligibility, membership in the particular plan (or employment by a particular employer) for substantial periods.

Even for short-term benefits, there is a problem of continuity of protection which can only be met by a public program. I am thinking not so much of the qualifying requirements (frequently three or even six months) which a worker may have to meet each time he shifts employment and comes under a different plan, but of the failure of most plans to continue the protection during periods of unemployment. A period of prolonged illness may also result in loss of hospitalization and medical care protection not only for the worker, but also for his dependents if they had such protection at all. Yet it is precisely in such periods that the worker and his family may have the greatest need of sickness or medical benefits. An employee benefit plan for a single plant or firm, whether financed by employer contributions or employee payroll reductions or both, cannot very well extend the protection of the plan long beyond the time when the employee's connection with the job and payroll is severed. Some union and union-management plans covering more than one employer have been designed to continue protection during brief periods of unemployment, usually two or three months. Basically, however, the problem can be met simply and adequately only through a public program.

Finally, I would mention the advantages of economy and simplicity which can be obtained in no other way than through a comprehensive, basic public program. Assuming a goal of basic protection for everybody and not just for a few fortunate or selected and superior risk groups, I say categorically that the goal of basic protection can be attained at a lower aggregate cost and with fewer administrative complications under a single public program than under many separate voluntary programs.

### **Appropriate functions**

Let me summarize what seem to be the appropriate functions of voluntary employee benefit plans. The general relationship of the voluntary plans to the public program should be that of supplementing the provisions of the basic program. Even if the old-age and survivors' insurance benefits are liberalized in accordance with



the recommendations of the Social Security Administration, they will still be small and there would remain ample room for provision of additional benefit amounts through voluntary plans. Such plans might also provide for payment of retirement benefits at a lower age than sixty-five in some industries or occupations. They might also provide survivor protection for classes of dependents not protected under the public program, such as widows under retirement age who do not have young children in their care, or might permit the individual worker to designate any beneficiary he chooses.

It may be assumed that when permanent disability benefits are included in a comprehensive public program they would be of about the same size as age retirement benefits and might also leave ample room for supplementation through payment of additional amounts.

The situation is not so clear with respect to temporary disability benefits, which might be at a higher level. There is a limit beyond which total disability benefits, in relation to previous and prospective earnings, cannot go without unduly discouraging a return to work. How much room there would be for supplementation of temporary disability benefits would depend on the adequacy of the basic program.

### **Different problem**

With respect to medical care plans, the problem is somewhat different. In the first place there would not exist the same difference between basic benefits and adequate benefits as in some of the cash disability benefits. A fully developed health insurance system would provide all essential medical services. In the early years of a health program, when some types of services—principally dental care and home nursing services—would probably have to be limited, there would be broad opportunity for supplementary benefits. There would also be room for some supplementation of hospital benefits for long duration cases as well as for persons desiring more expensive hospital accommodations than may be properly covered by a social insurance system.

But the more important relations between voluntary medical care plans and a health insurance system are of a different kind. Medical-care plans which provide service benefits (rather than cash reimbursement) could continue to provide such services as insurance benefits if the workers so wished. Whether the plan continued as such, there would, of course, be no question as to the opportunity for its doctors, hospitals, laboratories, etc., to participate in the health insurance system. I think it likely, however, that any volun-

tary medical service plan which is organized on a sound basis and which is providing high-quality care could and would want to continue as a service organization under a health insurance system.

### **Pinch-hitter plans**

I look upon existing and proposed voluntary employee benefit plans, therefore, as either supplementary to social insurance or temporary substitutes for social insurance. In both roles, they can—if soundly developed—be constructive. It seems to me the development of industrial benefit plans offers important opportunities for real employer-employee and union-management cooperation. Such plans are providing much-needed protection for some workers—protection which is not now available under our social insurance program.

It is fortunate that except in the case of permanent disability the plans which substitute for, rather than supplement, social insurance provide short-term benefits and involve no long-term commitments. Moreover, a number of these plans include explicit provisions for termination or suitable modification of the plan when a public program providing similar benefits is adopted. Whether or not the possibility is spelled out, it seems to me that those who are responsible for the design of any voluntary plan should keep in mind the problem of relating it to future public programs.

### **Have educational role**

In addition to giving protection, voluntary plans help play an important educational role. They also contribute to our knowledge of the effect on costs of alternative benefit specifications, methods of handling claims and alternative methods of organizing medical services and the successful operation of a plan. While I believe we now have sufficient experience and knowledge to design a sound public program, we should not forgo the opportunity of learning more from voluntary programs.

I hope, therefore, that as new voluntary health, welfare and retirement plans are established and existing plans continued, provision will be made for adequate and unbiased analysis of operations and costs. I would commend the furtherance of such provision as a worth-while objective for this organization, regardless of the relations ultimately obtaining between such voluntary employee benefit plans and our social insurance program.

## SOCIAL SECURITY RECOMMENDATIONS

President Truman, Message to  
the Congress, May 24, 1948.

*To the Congress of the United States:*

I WISH TO URGE upon the Congress the necessity for action at this session to strengthen our system for the protection of our people from the hazards of economic insecurity. We must not let our concern with the pressing problems of postwar adjustment cause us to neglect the human needs of our people.

On several occasions during the past 3 years, I have recommended to the Congress the type of legislation which I believe should be enacted to strengthen our present social-security system. The Congress has not acted on these recommendations. Instead, it is considering legislation which would actually remove the protection of our social-security system from many persons now entitled to its benefits. I believe that instead of limiting coverage it should be expanded, and that a number of other improvements should be made.

I urge, therefore, that the Congress take early action on the following recommendations.

1. More adequate benefits under old-age and survivors insurance:

The benefits being paid under old-age and survivors insurance are seriously inadequate. They were adjusted last in 1939. Even then, the benefits in most cases replaced only a small part of the income that the worker or his survivors had lost because of his retirement or death. Earnings and the cost of living have risen sharply since that time and cannot be expected to return to prewar levels. Consequently, further adjustments in benefit rates are imperative.

People whose sole income is from social-security payments have just about reached the breaking point. Many of them are widows of workers who were insured under our social-insurance system, and others are parents in families receiving aid to dependent children. Many have retired on old-age insurance benefits; others are receiving old-age assistance. All of them face a desperate struggle in trying to procure bare necessities at present prices.

The present average payment for a retired worker is only about \$25 a month, and is substantially less for dependents and survivors. If the insurance system is to prevent dependency upon public and

private charity this amount is obviously far too low. I recommend that the Congress increase benefits by at least 50 percent.

I also recommend that women be made eligible for old-age benefits at 60 years, rather than the present 65 years. Wives are usually younger than their husbands. In most cases, therefore, an insured worker cannot retire at 65 because it will be some years before his wife becomes eligible for a wife's benefit, and both of them cannot live on his benefit alone. Lowering the eligibility age is also important for women insured in their own right, for widows, and for mothers who depended on the earnings of a deceased insured worker.

The present law also works hardship by denying benefits to any person who earns \$15 in any month. I recommend that this limit be raised to \$40, so that the law will permit more older workers to supplement their benefits by part-time employment.

At the same time that these changes in benefits are made, I recommend that the limit on earnings taxable under the law be raised from \$3,000 to \$4,800, and that the date for increasing the tax rate from 1 percent to 1½ percent be moved forward from January 1, 1950, to January 1, 1949.

## 2. Extended coverage for old-age and survivors insurance:

The protection afforded by old-age and survivors benefits under our existing social-insurance program is unfairly and unnecessarily restricted. More than 20,000,000 persons at work in an average week are in jobs where they cannot earn any rights toward these benefits. People in these jobs are in at least as great need of insurance protection as those in jobs already covered. Many of them are in greater need because their earnings are low and uncertain or irregular.

These groups were originally excluded largely because of various special administrative problems. Simple procedures have now been worked out to collect contributions and pay benefits for these people without undue cost or administrative difficulty, and with little inconvenience to employers.

I strongly recommend that the protection of the Federal old-age and survivors insurance system be extended as rapidly as possible to the groups now excluded.

## 3. Extended coverage for unemployment insurance:

In the case of unemployment insurance, coverage is even more restricted than under old-age and survivors insurance. The principal difference is that under unemployment insurance employees of small firms (those firms employing less than eight persons) are not covered by the Federal law, whereas they are covered under old-age and survivors insurance.

Because of differences in the administrative problems under the

two programs, it is more difficult to extend coverage under unemployment insurance. Nevertheless, we should extend coverage at this time to at least two important groups now excluded.

I recommend, therefore, that Federal legislation be amended to extend coverage to those persons who are now excluded merely because they are employed by small firms. These workers are already covered in many States, and I see no reason why they should not be covered in the others.

In addition, I recommend that legislation be enacted to provide unemployment compensation to persons employed by the Federal Government. It seems absurd that the Federal Government does not provide to its employees the same protection that private employers are required to furnish for their employees.

In unemployment insurance also, benefits should be more adequate, particularly for the unemployed person who has a family to support. Not all States have raised benefit amounts and extended duration to meet present conditions or to recognize the special needs of workers with dependents. I believe that all States should do so. In addition, the unduly harsh provisions of some State laws for disqualifying claimants should be eliminated.

#### 4. Insurance against loss of earnings due to illness or disability:

I recommend that our social insurance system be broadened to include insurance against the loss of earnings due to temporary or extended disability.

Disability may have an even more serious effect on family income than old age or death. It may occur without warning in early or middle life when the worker has heavy responsibilities for family support and has had little time or chance to make individual savings. It usually involves medical costs as well as loss of wages.

On an average day sickness and disability keep out of the labor force three and a half to four million persons who otherwise would have been working or looking for work. Of these, more than a million and a half have been disabled for 6 months or longer.

Two States now provide insurance benefits against loss of income from temporary illness or disability. Other States are considering establishing such protection. I believe that the Federal Government should provide a strong financial inducement to all States to provide such insurance.

In the case of disability extending for 6 months or more, I recommend that insurance against loss of earnings be established in connection with the present old-age and survivors insurance program.

#### 5. Improved public assistance for the needy.

All of the foregoing recommendations relate to measures to

strengthen our contributory social-insurance system. Social insurance is a practical and tested means by which individuals can join together for self-protection. It does now, and should increasingly in the future, constitute our social-security system's first line of defense against want. Our constant aim should be to extend and improve this means for providing protection through mutual efforts by employers and employees, on a basis which emphasizes independence and self-reliance, rather than relief.

But we cannot neglect our second line of defense. Needy persons who are not yet protected adequately by insurance have to fall back on public assistance. And we may expect that there will be some who will continue to need public aid even after the desirable expansion in our social-insurance system becomes effective. We should therefore strive to make this assistance adequate throughout the United States.

The recent rise in living costs bears especially heavily on old people, fatherless children, and others who cannot earn and must depend on small fixed incomes or on savings. Many who can no longer make ends meet have been obliged to ask for public aid.

The aid now available to needy people is inadequate in many cases and in some areas of the country. This inadequacy stems in large part from three major deficiencies in the Federal Government's program for helping the States to finance public assistance.

The Social Security Act sets undesirably low maximum limits on the amount of the payment to an individual in which the Federal Government will share. The limits are even lower for aid to dependent children than for aid to the needy aged and the needy blind.

Even within the present maximum limits, the amount of the Federal grant to a State depends on the amount the State itself provides for the program. Where need is greatest, State resources are usually smallest. A needy person in a poor State therefore benefits less from Federal funds under the Social Security Act than a person in no greater need who happens to live in a rich State.

Moreover, Federal grants to States under the present act may be used only for three groups of the needy—the aged, the blind, and dependent children. Other persons in equal need do not share in these funds. Nor is there any provision under which the Federal Government shares with the States the costs of welfare services which avert or deduce the need for continued assistance.

I recommend that the Act be amended to meet these deficiencies, first, by permitting the Federal Government to match more fully the higher payments which many States find necessary to meet the needs of recipients; second, by relating Federal grants more equitably to the financial resources and needs of each State; and, third,

two programs, it is more difficult to extend coverage under unemployment insurance. Nevertheless, we should extend coverage at this time to at least two important groups now excluded.

I recommend, therefore, that Federal legislation be amended to extend coverage to those persons who are now excluded merely because they are employed by small firms. These workers are already covered in many States, and I see no reason why they should not be covered in the others.

In addition, I recommend that legislation be enacted to provide unemployment compensation to persons employed by the Federal Government. It seems absurd that the Federal Government does not provide to its employees the same protection that private employers are required to furnish for their employees.

In unemployment insurance also, benefits should be more adequate, particularly for the unemployed person who has a family to support. Not all States have raised benefit amounts and extended duration to meet present conditions or to recognize the special needs of workers with dependents. I believe that all States should do so. In addition, the unduly harsh provisions of some State laws for disqualifying claimants should be eliminated.

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Disability may have an even more serious effect on family income than old age or death. It may occur without warning in early or middle life when the worker has heavy responsibilities for family support and has had little time or chance to make individual savings. It usually involves medical costs as well as loss of wages.

On an average day sickness and disability keep out of the labor force three and a half to four million persons who otherwise would have been working or looking for work. Of these, more than a million and a half have been disabled for 6 months or longer.

Two States now provide insurance benefits against loss of income from temporary illness or disability. Other States are considering establishing such protection. I believe that the Federal Government should provide a strong financial inducement to all States to provide such insurance.

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5. Improved public assistance for the needy.

*All of the foregoing recommendations relate to measures to*

strengthen our contributory social-insurance system. Social insurance is a practical and tested means by which individuals can join together for self-protection. It does now, and should increasingly in the future, constitute our social-security system's first line of defense against want. Our constant aim should be to extend and improve this means for providing protection through mutual efforts by employers and employees, on a basis which emphasizes independence and self-reliance, rather than relief.

But we cannot neglect our second line of defense. Needy persons who are not yet protected adequately by insurance have to fall back on public assistance. And we may expect that there will be some who will continue to need public aid even after the desirable expansion in our social-insurance system becomes effective. We should therefore strive to make this assistance adequate throughout the United States.

The recent rise in living costs bears especially heavily on old people, fatherless children, and others who cannot earn and must depend on small fixed incomes or on savings. Many who can no longer make ends meet have been obliged to ask for public aid.

The aid now available to needy people is inadequate in many cases and in some areas of the country. This inadequacy stems in large part from three major deficiencies in the Federal Government's program for helping the States to finance public assistance.

The Social Security Act sets undesirably low maximum limits on the amount of the payment to an individual in which the Federal Government will share. The limits are even lower for aid to dependent children than for aid to the needy aged and the needy blind.

Even within the present maximum limits, the amount of the Federal grant to a State depends on the amount the State itself provides for the program. Where need is greatest, State resources are usually smallest. A needy person in a poor State therefore benefits less from Federal funds under the Social Security Act than a person in no greater need who happens to live in a rich State.

Moreover, Federal grants to States under the present act may be used only for three groups of the needy—the aged, the blind, and dependent children. Other persons in equal need do not share in these funds. Nor is there any provision under which the Federal Government shares with the States the costs of welfare services which avert or deduce the need for continued assistance.

I recommend that the Act be amended to meet these deficiencies, first, by permitting the Federal Government to match more fully the higher payments which many States find necessary to meet the needs of recipients; second, by relating Federal grants more equitably to the financial resources and needs of each State; and, third,



by providing Federal grants to help cover the cost of aid to persons not included in the present categories and the cost of essential welfare services which avert or reduce need for assistance.

The measures I have recommended have had long and careful consideration, and I strongly urge their enactment without further delay.

It has long been recognized as an inescapable obligation of a democratic society to provide for every individual some measure of basic protection from hardship and want caused by factors beyond his control. In our own country, the obligation of the Federal Government in this respect has been recognized by the establishment of our social-security system.

Under this system, most of our people now enjoy some degree of protection against the insecurity resulting from old age or unemployment or the death of heads of families. But the protection that is given them is far from adequate, and there are other millions of our people who are excluded from such protection altogether.

It is especially important to strengthen our social-security system at this critical time, when the false claim is constantly being made that democratic societies cannot protect their people from the economic and social uncertainties of modern civilization. We have studied with care and at great length the manner in which the system should be strengthened and we have the knowledge now to take many specific steps for that purpose. We should act upon that knowledge without further delay.

The passage of the Social Security Act in 1935 marked a great advance in our concept of the means by which our citizens, through their Government, can provide against common economic risks. Although this act is still under attack from some quarters, it is regarded by a vast majority of the American people as an essential and basic element of our democracy. A strong social-security system is recognized as an essential part of our national program to insure maximum levels of production and employment and to insure fair distribution of the output of our economy.

The original act was necessarily experimental in many respects, and was deliberately limited in its coverage and in the benefits provided until experience should permit its extension. In 1939, substantial amendments were made to improve the act on the basis of the experience gained by that time.

Since 1939 we have gained much further experience. Furthermore, extensive study has been given to the problem, both by the executive and legislative branches. From this experience and these studies has come a wide area of agreement concerning most of the steps needed to improve our social security system. Even where

agreement has not been reached, the evidence and arguments have been so fully developed that nothing can be gained by further delay.

I wish to emphasize that, because of general economic conditions, this is a particularly opportune time for taking these steps. Now, when employment and earnings are at the highest levels on record, it is the most favorable time for our working people to earn protection against serious economic risks which face them and their families as a result of unemployment, disability, old age, and death. Moreover, the increased coverage and higher contribution rates which I have proposed will result in a greater excess of income over expenditures in the social insurance trust funds than is at present the case. Even when the expanded public-assistance program is taken into account, the net effect of my recommendations is still to increase substantially the excess of income over outgo. Such an excess of income over outgo is valuable to reduce present inflationary pressures and to store up purchasing power for future use.

The measures I have recommended will extend and broaden our social security system to provide protection to millions of our people now excluded and against risks now pressing heavily upon individual families. They will provide protection to our people more and more on an insurance basis, and reduce our reliance on relief and similar types of public aids. They will do much to prevent distress and to continue our progress toward the great goals of individual welfare and independence.

It would clearly be unfair to the millions of our people for whom we know how to provide better protection to delay longer these sound and practical measures.

HARRY S. TRUMAN.

THE WHITE HOUSE, May 24, 1948.

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## UNEMPLOYMENT INSURANCE AND THE EMPLOYMENT SERVICE

"In spite of the fact that unemployment compensation has been the subject of discussion for almost a generation, . . . there is still some disagreement as to its primary purpose and as to its basic principles. It is generally conceived of as a multiple-purpose program, although different groups emphasize different aspects of it."

ISSUES IN SOCIAL SECURITY. *Report to the Committee on Ways and Means, 1946, p. 368.*

"The greatest evil of unemployment is not physical but moral, not the want which it may bring but the hatred and fear which it breeds."

*Beveridge, William H., FULL EMPLOYMENT IN A FREE SOCIETY. W. W. Norton, New York, 1945, p. 15.*

### INTRODUCTION

IN 1935 the Congress enacted Federal legislation to encourage the establishment of a state system of unemployment insurance as part of the Social Security Act. Only one state, Wisconsin, had enacted an unemployment insurance law prior to 1935, yet less than two years after the passage of the Social Security Act unemployment insurance laws were on the statute books of all 51 jurisdictions (48 States, Alaska, Hawaii, and the District of Columbia). The Social Security Act within this short span of time was responsible for the establishment of unemployment insurance laws throughout the country. The basic Federal legislation dealing with unemployment insurance was amended in 1939 and 1944 and now consists of the following three parts.

A 3 percent tax against which employers are permitted to offset, up to 90 percent, contributions made by them under

state unemployment insurance laws, as well as contributions forgiven under state laws due to employer "experience rating." This law now is known as the Federal Unemployment Tax Act and is part of the Internal Revenue Code.

The Federal government also makes grants to the states under title III of the Social Security Act to cover 100 percent of the cost of administration of the various state unemployment insurance laws. Since the Federal government retains 10 percent of the nominal 3 percent Federal tax, the cost of making these grants for administration is not a net charge to the Treasury.

Under title IV of the War Mobilization and Reconversion Act of 1944 provision was made for making loans to a state when its unemployment fund begins to run low.

In order for an employer in a state to receive credit against the 3 percent Federal Unemployment tax, Congress provided that state unemployment insurance plans must meet certain basic conditions before they can be approved by the Social Security Administration and must be certified to the Treasury Department before tax offset can be allowed. The Federal Unemployment Tax Act, as amended in 1939, provides that a state law must contain the following six basic standards:

(1) All benefits to be paid through public employment offices;

(2) No benefits to be paid for the first two years during which contributions are collected;

(3) All contributions received by the state to be transferred to the Secretary of the Treasury and credited to the state in the Unemployment Trust Fund;

(4) All money withdrawn by the state from the state Unemployment Fund to be used solely for the payment of insurance benefits;

(5) Benefits must not be denied by a state to any individual for refusing to accept work—

(a) If the position offered is vacant due to a labor dispute;

(b) If the wages, hours, or other conditions of work

are substantially less favorable to the individual than those in similar work in the locality;

(c) If, as a condition of being employed, the individual would be required to join a company union or to resign from any labor organization;

(6) The state legislature must reserve the power to amend or repeal the law at any time.

In addition to these standards, Congress provided in title III of the Social Security Act that a state law also must include nine specific provisions as a condition for receipt of administrative grants. Of these nine provisions three are identical with provisions found in the Federal Unemployment Tax Act. The six additional standards which a state must include in its state law, are as follows:

(1) Such methods of administration (including methods relating to the establishment and maintenance of personnel standards on a merit basis) as are found by the Social Security Administration to be reasonably calculated to insure full benefits when due;

(2) Opportunity for a fair hearing before an impartial tribunal for all individuals whose claims for benefits are denied;

(3) The making of such reports as the Social Security Administration may require;

(4) Making available to any Federal agency charged with the administration of public works or assistance through public unemployment the name, address, occupation, employment status, and unemployment benefit rights of each beneficiary under the state law;

(5) The expenditure of all Federal monies for administration solely for the purpose of proper and efficient administration; and

(6) Repayment by the state of any Federal monies received which have been lost or expended for other than the proper administration of the state law.

Thus, at the present time the Federal Congress has established twelve general standards to which state laws must con-

form in order to receive Federal tax credits and Federal administrative grants.

In addition to the two basic Federal provisions on unemployment insurance, originally enacted in 1935, the Congress added a third part to the program in the War Mobilization and Reconversion Act of 1944. Title IV of that Act created two new provisions:

(1) A Federal Unemployment Account consisting of the excess funds collected under the Federal Unemployment Tax Act which were not appropriated by Congress for grants to the states for administration;

(2) An arrangement whereby the Social Security Administration will make loans to a state, from this Federal Account if the state's reserve fund begins to get low. This provision was made title XII of the Social Security Act. Because of very favorable financial circumstances no state has applied for such a loan.

Although local, state, and Federal funds for the operation of public employment services have been utilized for many years, it was not until 1933 that the Congress enacted into law a national policy and program under the supervision of the Department of Labor for encouraging the operation of a permanent nation-wide network of employment services. This law, commonly referred to as the Wagner-Peyser Act, preceded enactment of the Social Security Act by over two years. When the Social Security Act was passed, it provided that one of the conditions for approval of a state unemployment insurance law was that the state must provide for payment of unemployment insurance benefits through public employment offices. It was originally intended by the President's Committee on Economic Security that the social security program would be administered through the Department of Labor, thus making it possible to coordinate effectively the employment service functions under the Wagner-Peyser Act and unemployment insurance functions under the Social Security Act. Congress, however, provided that the Social Security Board would be an independent agency, separate from the Labor Department.

On July 1, 1939 the United States Employment Service was

transferred from the Department of Labor to the Social Security Board under the terms of a Reorganization Plan. In 1946 the employment service, which had been federalized on January 1, 1942, transferred to the War Manpower Commission in 1942, and to the Department of Labor in 1945, was returned to state control under the 1947 Labor-Federal Security Appropriation Act. Federal functions relating to the United States Employment Service were retained in the Department of Labor. In 1947 President Truman proposed to retain the United States Employment Service permanently in the Department of Labor, thus providing for a permanent separation of the employment service and unemployment insurance at the Federal level. Congress rejected this proposal. In 1948 President Truman proposed transferring the Bureau of Employment Security from the Social Security Administration to the Department of Labor. Congress rejected this proposal also. Congress transferred the United States Employment Service to the Federal Security Agency under the provisions of the Labor-Federal Security Supplemental Appropriations Act, 1949, which was passed over the President's veto. Under the terms of the Appropriation Act, the United States Employment Service and the Federal functions relating to unemployment insurance were brought together in the Bureau of Employment Security under the Social Security Administration, effective July 1, 1948.

Unemployment insurance and the employment service have been, still are, and probably will continue to be highly controversial subjects. So much has been written and said about these two programs in recent years that it is impossible to make a complete, balanced, and up-to-date selection of articles without unduly increasing the size of this book.

Because of the controversies concerning the most important issues in unemployment insurance, it is very unlikely that there will be any major changes in the unemployment insurance program during a period of relatively light unemployment. Should the United States again be confronted with a serious unemployment problem, the present system might then be adapted to the



needs of that time. The experience in Great Britain is evidence that unemployment insurance is constantly amended and modified from time to time as economic conditions change. Whether any basic changes will occur in the program in the United States in the immediate future remains to be seen.

## THE CATASTROPHE THAT IS UNEMPLOYMENT

Abraham Epstein, *Insecurity, A Challenge to America*, Chapter XII. New York: Random House, Inc., 1938.

THE SOCIAL import of unemployment cannot be over-stated. No phase of our industrial life is so pregnant with danger to individual and social security. Lack of work deprives the industrious and thrifty of their livelihood as well as the indolent and careless. It breaks down the morale of the worker, shatters family life, and undermines the physical well-being of the next generation. It is the bane of our industrial society. With its paradox of starvation amidst plenty it presents the greatest challenge to the existing social order. It is the greatest menace to thrift, to our ideals and to our traditions. In the words of President Hoover, "There is no economic failure so terrible in its import as that of a country possessing a surplus of every necessity of life in which members, willing and anxious to work, are deprived of these necessities."

### Effects on the worker and his family

To the wage-earner and his family inability to find remunerative work means the complete break-down of everything dear to them. Throughout the worker's life unemployment "stands as a specter of forbidding mien with gaunt finger pointing to charity and dependency." Only those who have suffered through long periods of unemployment can fathom the hopelessness, the gnawing grief, the humility and despondency of a father returning home after another day's futile search for a job. There is no greater affliction than this vain, unending effort for a chance to earn one's daily bread. After weeks and months of fruitless hunting, the worker blames himself for incompetence and little by little loses his self-respect. Every ambitious dream and plan is shattered. He begins

to doubt whether another job will ever come his way. Each day he faces his wife, his children and his neighbors with the same discouraging, tormenting "nothing again today." He sees his last few pennies wasted on fruitless car fares in search of a job. He is tortured by the fear of refusal when he asks the grocer, the butcher and the milkman for further credit. Embittered by the scorn of his closest friends and relatives when he asks them for additional loans, he finally plunges into the abyss of despair. Conscious of the futility of further search for work, he resolves not to face his family and friends again and leaves for some other city without a word to his family. He may merge himself with the mass of social outcasts in the breadlines, or cross a convenient bridge for the last time. No matter what happens, the worker, after a prolonged period of unemployment, degenerates into an entirely different person and his self-confidence will never again regain its former lustiness. He is in serious danger of becoming permanently unemployable.

It is now generally acknowledged that the unemployables of tomorrow spring from the unemployed of today. There is nothing more detrimental to personal skill and efficiency than prolonged idleness with the attendant insecurity and lack of peace of mind. As early as two decades ago the Wainwright Commission of New York declared: "From being unable to get steady work, the unemployed often become unable to do steady work—unreliable, inefficient, 'good for nothing.' During long periods of unemployment good workmen degenerate into tramps. They become habituated to a life of idleness and uncertainty so that when at last employment is once more to be had, they are unfit for continuous labor. The mere unemployed have become unemployable."

Just this summer, says *Mr. Whiting Williams*, out among the unemployed in Homestead, Gary, Detroit, Cleveland and South Chicago, I had occasion to see exactly how such an emergency as we have been going through loosens men from their ordinary jobs and their families, and in their effort to find work here, there, or somewhere, starts them on the road down to the irresponsibility and the virtual unemployableness of the hobo. The same disconnection also drives the hobo still farther down to the criminal level of the yegg.

The dire consequences of prolonged unemployment upon the worker's family are well known. Family savings—the first line of defense—become exhausted. The narrow margin between security and destitution is soon wiped out. Insurance protection is surrendered or lapsed. Articles not paid for in full are taken away with a complete loss of the investment already made. Furniture is sold. The home, bought with the savings of a lifetime, is lost through foreclosure, and the family moves into closer quarters or into poorer

and cheaper neighborhoods with the resulting overcrowding, ill tempers and bad health. As the grocer, the butcher and baker demand payment, even the most necessary articles of food are reduced and the family lapses into semi-starvation.

We have already noted that the depression has wiped out over 7,000,000 savings accounts and millions of insurance policies.

### Effects on health

Unemployment is inseparably accompanied by malnutrition which affects not only the adults but also the children. Everything is given up but the cheapest foods. And relief doles, as we have already seen, do not provide for a balanced diet. "Toledo is said to have fed fifty thousand persons on an average of six cents a day per person." In many cities and states the relief allowed amounts to less than four cents per meal. The importance of milk for children is universally recognized. But in New York City, the daily consumption of milk fell one million quarts in the early part of the depression and in September, 1931, was 20 percent lower than in the same week a year earlier. In northern Illinois the consumption of milk decreased as much as 30 percent in some communities. The New Jersey Department of Agriculture declared: "Figures available in the Bureau of Markets indicate a curtailment in per capita milk consumption in New Jersey. This curtailment is surprising in face of very low retail prices which make milk among the cheapest items in the family budgets."

The effect of unemployment on health in rural Pennsylvania has been described by the State Secretary of Public Health.

Malnutrition of children above average in 48 counties. Reported increase 10 percent to 300 percent. Average probably 25 percent increase. School examinations in fourth-class school districts: Incomplete reports indicate 27 percent of school children undernourished. Approximately 216,000 out of a school population of 800,000. Increase of 50 percent over normal. New patients per month at tuberculosis clinics have nearly doubled since 1929. Waiting list of sanatoria 1,426—against 1,085 in 1930 and annual average of 600. Tuberculosis mortality rate for 1931 will probably show first increase in years—indicated from trend for first eight months. General death rate will show an increase. Fall reports on prevalence of disease in absence of epidemics show increase.

It is but natural that unemployment and malnutrition should cause illness and deterioration of physical health. Pulling in the

belt and cutting down expenses on food and clothing, living in unheated and sunless rooms, and exposure in the search for work break down the physical resistance of even the healthy and strong. Widespread deficiencies in diet, neglect of teeth, postponement of prophylactic measures and of treatment for incipient ailments bring on an accumulation of lowered vitality and diseased conditions. There is nothing new in this since every depression has shown an increased load in illness and left permanent effects on the children. This is not only the unanimous testimony of American social workers but is also the conclusion of British students who point out that before social insurance was introduced in Great Britain "the great mass of low-paid, unskilled and irregularly employed laborers and their families were quickly affected by any falling off in trade, and suffered privation and actual physical distress. This privation was soon reflected in mental distress, demoralization and the physical condition of the children."

### Effects on industry

Unemployment affects not only the unemployed but also imposes great hardship on individual employers as well as on industry and business in general. The cutting off of billions in purchasing power offers the greatest obstacle to the advance of mass production. The losses sustained go far beyond the immediate diminution of profits. Curtailed production increases manufacturing costs, making it ultimately more difficult to hold present markets, let alone increase sales. At the same time, the charges on unused fixed capital and other necessary overhead expenses eat into surplus and threaten eventual ruin.

As Professors Douglas and Director point out:

Irregularities in production carry with them as a corollary a failure to use machinery and capital equipment of the country to full capacity. For industry must maintain at least sufficient equipment to keep its maximum forces employed and, when fewer workers are employed and less than the standard number of hours worked, the machinery and plant are as idle as are the men. One of the authors has estimated that in 1922 the total value at cost prices of the fixed capital in manufacturing alone amounted to approximately 24.4 billions of dollars. At the present time it is undoubtedly appreciably more. If we assume that the percentage of unemployment in manufacturing is on the average approximately 8 percent, this would mean that approximately one-twelfth of this amount of capital, or at least two billion dollars, lies idle on the average because of unemployment.

Since interest, depreciation, taxes and obsolescence must amount to at least 12 percent per annum on this investment, this would mean a minimum annual loss of 250 million dollars in idle overhead for manufacturing alone. This is a most conservative estimate and the probabilities are that the costs are even higher.

These costs are for normal times. They are obviously enormously larger today.

An even greater obstacle to the efficiency of modern industry is the restriction of output on the part of employed workers who fear that increased production will mean lay-offs and long periods of unemployment. Whatever trade union restrictions on output exist are due principally to this fear. Despite the constant danger of being discharged for inefficiency, even unorganized workers will try everything possible to slow down output in order to prolong their jobs. This has become an almost instinctive means of self-protection. A study recently conducted by the Personnel Research Foundation of Antioch College disclosed that "holding back on output apparently was the common thing, and that honest, sustained effort was frowned upon." A group of Antioch College students, headed by Professor Stanley B. Matthewson, set out to discover everything they could about restriction of output. During the investigation Mr. Matthewson held eleven different jobs, working as a laborer, machine operator, bench assembler, conveyor assembler and skilled mechanic. The report records 223 instances of restrictions in 105 establishments, ranging over forty-seven localities.

My experiences and the experiences of my co-workers dispelled any impression we may have had that restriction is a sporadic practice engaged in by only a few scattered and disgruntled workmen who have a personal grudge or who have been misled by a labor organization. The draftsman in Boston, the clerk in Chicago and the mechanic in Missouri all apparently respond to the same urge. Each in his own manner purposely goes out of his way to do what he feels is less than the normal amount of work.

### **Effects on society as a whole**

There is no possible way of measuring the havoc caused by prolonged unemployment to society as a whole. A certain amount of leisure and rest without worry is beneficial and even essential; but the evil consequences of prolonged involuntary unemployment under the present conditions of fear and insecurity are incalculably detrimental to the social order. Financial losses through idle plants and unproductive man power are as nothing compared to the loss of habits of thrift, the personal degradation, and the immorality

and crime resulting from unemployment. These undermine the basic security of our entire social structure.

Unemployment also threatens thrift. As stated by Dr. Williams:

People who have saved and then have seen it all go think: "What is the use of saving!" They find themselves no better off than the family that saved nothing. They merely were able to "keep off the town" longer but finally came "on the town" just like the worthless family. Therefore many families, when they get work again, spend wastefully. Then, too, the personality gets a peculiar twist from the anxiety of a depression. When people get into an emotional, anxious condition, if they earn money they "blow it in," as a momentary compensation for their anxiety.

The relation between unemployment and crime is also shown by Mr. Lewis E. Lawes, Warden of Sing Sing Prison. In the year 1928-1929 the total number of prisoners admitted to Sing Sing was 1,098, and in 1930-31 the number rose to 1,393, an increase of 26.8 percent. In the same years prisoners admitted for robbery increased from 308 to 532, or by 72.7 percent.

All major crimes committed by adults, and all serious offenses charged against juveniles show a sharp increase since 1930, *declares the California State Unemployment Commission*. Major crimes, especially crimes having an economic motive, increased alarmingly in Los Angeles since 1928. The Police Department records show that there were nearly twice as many robberies in 1931-32 as in 1928-1929 (2,380 as contrasted with 1,237). At the same time there were increases ranging from 62.5 percent in burglaries to 72.3 percent in theft from persons and 73.1 percent in petty theft. Burglary and robbery show the most startling increases in 1931-32 over 1928-29.

The desperate conditions facing unemployed young women were disclosed in a special report from different cities throughout the United States in the *New York Times* of December 25, 1932. Boston reported more than 20,000 women unemployed. Out of 3,500 girls applying for work with the Boston Young Women's Christian Association jobs were found for only 285. Cleveland reported that one out of every three of the 100,000 women normally employed was out of a job. Atlanta reported that one-half of its unemployed army of 44,000 were women workers and "their plight is more precarious than that of most of the men." Los Angeles reported "almost 12,000 urgently needy unemployed girls and women" registered for relief. St. Louis reported "ten times as many homeless women . . . as were listed at this time last year." In Providence, about 24,000 were out of work. Washington reported 10,000 "hungry and often homeless" women, while Mil-

waukee and Kansas City placed their number of unemployed women at 16,000 and 7,000 respectively. Hundreds of these girls were college graduates while thousands had a high school education.

The unemployment of young women leads to grave social evils. In March, 1931, three prominent social workers in New York issued a warning about the terrible plight of jobless young women. They warned the authorities that "theirs is the condition of women no longer able to stand alone." The prediction was made that unless immediate aid were given these unfortunates, "graver social evils than even now darken newspaper headlines will inevitably result." In plain English, young girls are being driven into prostitution through poverty. A New York newspaper man who surveyed bread-lines, flop-houses and the haunts of the dispossessed exclaimed: "One wonders what the effect of this want and unemployment has on young girls and women. In the streets the question is readily answered. Everywhere one sees the heavily rouged faces, the cheap attempts at finery—one hears the whispered street salutations."

### Summary

We may conclude with the summary of the California Unemployment Commission:

Idleness destroys not only purchasing power, lowering the standards of living, but also destroys efficiency and finally breaks the spirit. The once industrious and resourceful worker becomes pauperized, loses faith in himself and society. Society must provide his bread.

Public agencies bear the greatest burden of relief. Millions of dollars are expended from tax funds to aid the destitute. Public hospitals are crowded to overflowing. Patients are sent home prematurely to make room for the next line of waiting victims. Beds in private hospitals must be hired by county health agencies to accommodate all those in need of medical attention. Tax funds must be raised not only for food and medical care of the destitute, but to check crime, delinquency and vagrancy. Major crimes of adults and major offenses of juveniles are definitely on the increase. Society is paying heavily for unemployment, but it is failing to stem the rising tide of ill-health, discouragement, radicalism and demoralization of homes that follows in the wake of the depression.

Nothing in our social and economic life today breeds more discontent and bitterness than the inability to find a job. To deprive millions of people of common necessities in a land overflowing with riches and plenty is the greatest challenge to the stability of the present social order. History has repeatedly shown that no society can long endure under such conditions. The continuance of the American social structure depends on the security we give the involuntarily idle.

## THE NEED FOR UNEMPLOYMENT COMPENSATION

Gladys Friedman, *Unemployment Compensation: What and Why?* Social Security Board, 1937.

THE HAZARD of unemployment is one of the most serious confronting wage earners in an industrial society. As our economic life becomes more complex and industry more interrelated, economic maladjustments are felt more and more deeply throughout the country. Although we have no accurate measure of unemployment, all available information indicates that no year in the past half century has been free from unemployment. Even in good times a large number of employable persons are unemployed each year. With returning prosperity now in the offing, nothing should obscure the fact that unemployment was not created by the depression, nor will it disappear with recovery. Unemployment is a continuing problem of modern society and must be met by a continuing program:

\* \* \*

The results of seasonal and chance fluctuations in business account for much of this unemployment. But certain persistent tendencies in our economic structure, such as technological change, also bring their share of it. Increased mechanization of industry, new and improved methods of production, general increase in the productivity of labor and capital—all these, whatever their ultimate effect on total employment, cause the displacement of individual workers from their jobs and unemployment of significant duration. From 1929 to 1933, the productivity of labor in manufacturing increased by from 10 to 20 percent. Without a corresponding increase in the demand for manufactured goods this must have meant a decrease of similar size in employment. It is worthy of note, too, that the depression has deferred the installation of new machines and methods, and it is expected that the decisive return of prosperity will witness a perhaps unprecedented improvement in productivity with its correlative increase in technological unemployment. Prosperity, far from making unemployment compensation unnecessary, will, paradoxically, increase the necessity for it. Like technological change in some of their effects are the ever-recurring shifts of style and consumption that create new industries and displace old ones.



Such changes as those from coal to oil for domestic heating, from lumber to steel for building, from cotton and silk to rayon, may not seriously affect the total volume of employment, but they are almost certain to cause serious unemployment for certain industries, localities, or individuals. Such changes in our industrial pattern will continue to contribute to the problem of unemployment for which some remedy is critically required.

The results of unemployment are devastating to the worker affected and to the economic system as a whole. Savings of years are exhausted, health is undermined, living standards sink to a lower level, families disintegrate, application for relief may become necessary. Buying power of the consuming public is decreased, causing further contraction of the market for goods and a consequent shrinkage of profits. Insecurity, even for those who remain employed, inevitably results.

Unemployment often overtakes the individual with little or no warning. Lower-paid workers, even when aware a week or two in advance of impending unemployment, do not have the savings with which to plan for periods of joblessness. Immediate contraction of even the most necessary purchases is imperative overnight; often this process of wearing down living standards goes through a succession of moves to progressively inferior housing and abandonment of standards in clothing and of all cultural and recreational enjoyments. Relief, when available, often provides for nothing but the cheapest food, on a scale far below that formerly customary; whatever provision is made for clothing or shelter is spasmodic and again at a far lower level than that to which the worker has been accustomed. The pressure of sheer necessity forces wives, children normally in school, or other members of the family to go out looking for jobs with which to eke out a family income, thereby competing with employed wage earners and further intensifying the unemployment problem. And, furthermore, relief, the only form of security available to the worker who has lost his job, is itself constantly fluctuating in policies and in standards, depending largely upon available funds, so that insecurity is piled upon insecurity.

It is often asked if we can afford unemployment compensation, if industry now struggling out of the depression can bear a further handicap. Such a question is quite misleading because it obscures the fact that it is unemployment itself, not unemployment compensation, which is expensive. Unemployment is incalculably expensive. Its cost—to workers, to business, to government, and to society at large—can hardly be exaggerated. But unemployment compensation is not expensive. It simply brings out into the open and more equitably distributes a part of the unavoidable cost of unemploy-

ment. This part of the cost, further, is levied at a time when it can most easily be borne.

Since returning prosperity will tend again to lull us into a false sense of security and indifference to the problem, it may be advisable to recall the successive stages in the recent development of our attitudes to this problem. First, we denied that there was or could be any unemployment. Second, we admitted the fact of some unemployment but denied that it was serious. Third, we conceded its seriousness but contended that it would and could be relieved by private charity, even though local public relief was already carrying the greater part of the burden. Fourth, the increasing pressure on State and local finances forced us to accept a policy of Federal relief or work relief, in the belief that only a temporary adjustment to a passing emergency was necessary.

During the depression the Federal Government spent about \$7,000,000,000 on its relief and work-relief programs. In addition, State and local governments spent about \$1,500,000,000. The burden of unemployment relief was beyond the capacity of most local governments and was a major reason for recent Federal deficits.

There is a fifth step which was greatly stimulated by the passage on August 14, 1935, of the Social Security Act. This step was the enactment by States of laws to protect their industrial and commercial workers against some of the hazards of involuntary unemployment. As far back as 1916 the first bill for unemployment compensation was introduced in a State legislature; in 1920-22 bills were introduced in five State legislatures, and in 1932 the first unemployment compensation law was passed in Wisconsin. On July 1, 1937, every State in the country, including the District of Columbia, Alaska, and Hawaii had, by the passage of unemployment compensation laws, taken this final step—abandoning our complete reliance on relief doles and adopting in their stead, as far as possible, the common-sense device of unemployment compensation. For it is surely nothing but common sense to set aside by contributions, during periods of employment and prosperity, a fund out of which, during subsequent unemployment, benefits may be paid to insured workers. Unemployment benefits, guaranteed in advance, certain in amount, paid out of a fund built up by orderly and systematic means, are clearly more businesslike than any form of haphazard relief, hastily set up and financed in the midst of a crisis. A planned program gives all workers a sense of security. It decreases the fear of unemployment which hangs like a cloud over all workers. To the extent that the fear of unemployment can be decreased, productive efficiency, as well as personal well-being, will be increased. The

increase in efficiency might easily more than offset any premium cost.

We have long tried to evade the problem of unemployment, the very size of which we do not yet know. Unemployment compensation will require a more adequate system of public employment offices and more adequate employment and unemployment statistics. More effective machinery for handling the unemployed will be paralleled by more detailed knowledge of the nature and scope of the problem. Unemployment compensation may thereby produce that knowledge of unemployment which will bring with it the power to attack the problem constructively in other ways.

## DEVELOPMENT OF UNEMPLOYMENT COMPENSATION

Edwin E. Witte, *Yale Law Journal*,  
November, 1945.

EVEN MORE THAN MOST legally created institutions, unemployment compensation as it now exists in the United States is an historical product rather than a logical conception. The enactment of the original laws was the result of many compromises. Since then they have been changed frequently and in many respects without following any set patterns. There never has been agreement as to the purpose of unemployment compensation or its basic principles. Differences of opinion among the champions of the institution are so extreme as to disrupt lifelong friendships and to provoke more heat than light in discussions. Unemployment compensation differs so much from state to state that there is a large element of truth in the claim that there is no such thing as an American unemployment compensation system. It is not now and never has been entirely satisfactory to any of the specialists in this field nor to any element in our complex society. Even during a period of rising employment, its limitations and inadequacies have become very apparent. Very certainly, it will not protect us from another depression nor afford an adequate safeguard against its worst consequences.

Yet unemployment compensation has not proved a failure. After twenty years of discussion before the first state enacted an unemployment compensation law and three more years before the second law was passed, the next two years witnessed enactment of such legislation in literally every state. Since then eight years have

elapsed, during which unemployment compensation has been improved in many respects. Benefits have been very distinctly liberalized and, while still inadequate, are much better than the actuaries considered to be within the realm of possibility when the laws were enacted. Much larger reserves have been accumulated than were expected. Both these results are primarily attributable to very favorable employment conditions, but are likely to prove of greatest value now that the war has ended and we are confronted with reconversion unemployment. While there has been much distrust and a great deal of friction between the state and federal officials concerned with unemployment compensation, its administration has been quite satisfactory and not very costly. Unemployment compensation has truly become an accepted part of the American way of life, and all discussion of it nowadays concerns its improvement, not whether it should be retained. Yet it is, by no means, a finished institution, but one which is likely to continue to undergo many changes and which clearly still needs to be improved to realize its fullest possibilities.

### **Enactment of the unemployment compensation laws**

The American unemployment compensation laws stemmed from two major sources: the American workmen's compensation system and the British unemployment insurance system. The most novel feature of the American system of unemployment compensation (federal-state administration), however, was introduced through the Social Security Act of 1935. The provisions in that act relating to unemployment compensation were designed to induce the states to enact such legislation, after years of failure to get them to do so. This purpose was accomplished in a remarkably short time, but the provisions remained as a method of administration. This aspect of the legislation, lightly considered at the time, has powerfully affected all subsequent developments, as have the controversies between the advocates of unemployment compensation which developed during the years when they were debating the institution in a vacuum, in the absence of actual experience.

### **Earliest discussions of unemployment insurance**

There was some discussion of unemployment insurance in the United States even before Great Britain passed its pioneer national act in 1911, under the leadership of the American Association for Labor Legislation. At its First Annual Meeting in 1907, Professor Henry R. Seager of Columbia University discussed the "Ghent

system" of unemployment insurance. At its Fifth Annual Meeting in 1911, Professor Charles R. Henderson of the University of Chicago discussed the recently enacted British law, and the Association organized a Committee on Unemployment to study the problem and to consider methods of prevention and alleviation. In 1913, the Association sponsored the first American Conference on Social Insurance, at which Professor Henderson, in a paper on "Insurance Against Unemployment," strongly urged that such insurance was a necessity for this country, no less than in the older countries of Europe.

Much more extensive interest in unemployment insurance developed during the depression of 1914-1915. In February, 1914, the American Association for Labor Legislation and the affiliated American Association on Unemployment conducted a National Conference on Unemployment and followed this up by a second conference in December. At this Second National Conference on Unemployment a tentative draft of "A Practical Program for the Prevention of Unemployment in America" was presented and endorsed. This called for a nationwide and coordinated system of public employment offices, planned public works programs and the expansion of public construction in periods of depression, the regularization of industry, and unemployment insurance. While the major function of unemployment insurance was conceived to be to stimulate the prevention of unemployment, it was also to serve "for the maintenance, through out-of-work benefits, of those reserves of labor which may still be necessary to meet the unprecedented fluctuations of industry." This program was supported by many of the emergency commissions created throughout the country during the depression of 1914-1915 and also by many big-name reformers. As far as unemployment insurance is concerned, however, it led to but one legislative proposal, the Massachusetts bill of 1916, which was almost a copy of the original British law except that it applied to a wider range of industries. By the time this bill was introduced, boom had succeeded depression, and it received scant consideration. In the succeeding years, even the American Association for Labor Legislation seems for a time to have lost interest in unemployment insurance. In 1916, however, the Dennison Manufacturing Company pioneered with the first company unemployment reserve system, to be followed in the twenties by quite a few more company plans and some joint company-union unemployment reserve systems. These were indications that American opinion was gradually coming to recognize not only that unemployment is a problem of industry and not merely of unwillingness to work, but also that something can be done about

it. But all progressive thought on the subject regarded the regularization of industry and the prevention of unemployment, rather than the alleviation of its consequences, as the objective.

### The Huber Bill in Wisconsin

Although Americans became increasingly conscious of the problems of unemployment during the short but very severe depression of 1920-1921, for the most part they turned to remedies other than unemployment insurance. The keynote was sounded in the opening statements of President Harding and Secretary of Commerce Hoover to the President's Conference on Unemployment of 1921, warning the members to avoid "the demoralizing experience of Europe" or seeking the remedy "in doles from the public treasury." Unemployment insurance, however, was more widely discussed than ever before, and in Wisconsin a new proposal for unemployment insurance made its appearance. This was the Huber Bill of 1921, whose real author was the late Professor John R. Commons. Ten years before, Professor Commons had been one of the first workmen's compensation administrators in this country and had been very much impressed by the stimulus which the workmen's compensation laws had afforded to the safety-first movement. He believed that if employers were required to pay a substantial part of the costs of unemployment they would find means of greatly reducing unemployment, just as industrial accidents had been reduced after passage of the workmen's compensation laws. To effectuate this purpose, the Huber bill deviated quite considerably from unemployment insurance as it had developed in England, and was distinctly a blend of workmen's compensation and unemployment insurance. This was reflected in the very name given the institution, "unemployment compensation." Unlike the British Act, it provided for contribution from the employers only and for variations in contribution rates. In the terminology of the later controversy over pooled funds versus employer reserves, it provided for a pooled fund but with the contributions rates varying in accordance with the risk of the industry to which a firm belonged and its own employment record.

This measure, at the time, had a broader appeal than the British Act or the Massachusetts bill of 1916. It came within one vote of passage when first introduced. Thereafter it was reintroduced in every succeeding session of the Wisconsin Legislature in the 1920's, and, although it never again came as close to passage, it always commanded respectable support. It was copied during the same period in many other states, where it received endorsements from

many sources. While the American Federation of Labor adhered to its official position (adopted in 1916) of opposition to unemployment insurance in any form, the Wisconsin and many other state federations of labor actively supported the Commons proposal, as did the progressive employers who were experimenting with unemployment reserves of their own and literally everybody who at that time was advocating unemployment insurance in this country. Until the great depression began in the fall of 1929, the support for unemployment insurance, however, was too small for passage of any legislation on the subject.

Throughout the twenties the British unemployment insurance system was in low repute in the United States. In popular discussions it was usually referred to as a "dole," and the fact that England appeared to be less prosperous than the United States was ascribed to its mistaken policy of governmental coddling of the unemployed. Under the circumstances, it was but natural that the champions of unemployment insurance insisted that their proposal was an "American plan," radically different from the defective British system. Nor did unemployment insurance as it existed in England become immediately popular after the great depression set in; for the early years of the depression witnessed the near collapse of the British system, and it was not until a considerable time after it had passed the crisis in 1931 that its basic strength was appreciated in this country.

### **Interest and progress in the early depression years**

The idea that there should be unemployment reserves to tide the workers over periods of depression, akin to the corporate reserves from which corporations were able to keep up dividend payments although operating in the red gained, however, great popularity. Business leaders who looked with favor upon this idea wanted each corporation or trade association to set up and control its own unemployment reserves, with the government doing no more than to exempt from taxation funds set aside for this purpose. The people who had long urged unemployment insurance sought to capitalize upon the growing popularity of unemployment reserves in the ranks of business. The result was a further emphasis upon the features which distinguished the American proposals from their British prototype. In 1930 the American Association for Labor Legislation promulgated "An American Plan for Unemployment Reserves," and a new unemployment compensation bill (named for its introducer, Professor Harold M. Groves, and drafted by students of Professor Commons, particularly Elizabeth Brandeis

and her husband Paul Raushenbush) made its appearance in Wisconsin. These measures were very similar to the Huber bill but provided for segregating each employer's contributions in a separate account within the state's unemployment reserve fund, to which all payments of benefits to his employees were to be charged. Unlike a true employer reserve, moneys in this account did not belong to the employer, and the entire fund was pooled for purposes of investment and management; but it was stressed that this sort of a system made each employer responsible only for his own unemployment and afforded the possibility of keeping his costs at a minimum.

Even with the vigorous support of the state administration of Governor Philip F. LaFollette, however, it was not possible to get the necessary votes for passage of the Groves bill until its supporters accepted two amendments offered by its opponents. One of these provided that the state scheme should not take effect if a sufficient number of employers voluntarily set up unemployment reserves of their own during the period of a year and a half before the law's effective date. The other allowed employers with unemployment reserve systems providing as liberal benefits as the state system to retain their reserves and manage their own systems. It was in this form that Wisconsin in February, 1932 enacted the first American unemployment insurance law, to become effective, as far as the collection of contributions was concerned, on July 1, 1933 (unless a sufficient number of employers in the meantime established employment reserve funds of their own), with benefit payments to begin two years later.

When Wisconsin enacted its pioneer law, there was a rapidly growing interest in unemployment insurance throughout the country. The national administration manifested no interest in the subject, but it attracted ever-increasing attention in the states. It was discussed for the first time at the Conference of Governors in June, 1930. On that occasion Governor Franklin D. Roosevelt of New York said, in his first statement on the subject, "Unemployment insurance we shall come to in this country just as certainly as we came to workmen's compensation."

### **Failure of efforts at state legislation in 1933**

In view of these developments, there appeared to be at the beginning of 1933 every prospect that many states would enact unemployment insurance laws in the legislative sessions then convening. A total of 68 bills were introduced in 25 states, and Senator Wagner introduced in Congress an unemployment reserves bill



for the District of Columbia. In seven states one house passed an unemployment insurance bill, but nowhere was such a bill enacted into law; and in Wisconsin repeal of the law enacted in the previous year was avoided only by the acceptance of its supporters of postponement of the effective date for another year. By the end of the year, hope for the establishment of unemployment insurance in this country through unaided state action seemed remote.

One factor accounting for this situation was division of opinion among the advocates of unemployment insurance; another, that with the continuance of wholesale unemployment, unemployment insurance and particularly unemployment reserves seemed less valuable than earlier in the depression. Controversy developed with the passage of the Wisconsin law and the filing, late in 1932, of the report of the Ohio state commission for the study of unemployment insurance. In this report a strong stand was taken against individual employer reserves, and a plan of unemployment compensation was recommended which closely resembled the original Huber bill. The controversy which developed at first concerned the Wisconsin law versus the Ohio plan, but soon shifted to a more general debate over employer reserves versus pooled funds, the advisability of variations in contribution rates, employer versus tri-party financing, and the purposes of unemployment insurance. Two camps developed, with one or the other of which nearly all of the intellectuals interested in unemployment compensation were identified—the one composed of most of the early advocates of unemployment insurance connected with the American Association for Labor Legislation, the other centering in the American Association for Social Security, which, until 1933, was the Association for Old Age Security but which, with its change in name, became the great champion of a British unemployment insurance system for the United States. This controversy gave the general public the impression that these advocates did not know what they wanted. At least of equal importance in stalling progress was that the continuance of the depression made it impossible to see the solution of the unemployment problem in unemployment insurance. While employer unemployment reserves seemed very promising early in the depression, they had by this time been conclusively demonstrated to be inadequate. The great increase in popular support for unemployment insurance in the years 1931–1933 came primarily from those who were experiencing or feared the inadequacies and hardships of relief, but the size of the problem and its long continuance made it very clear that unemployment insurance at its best was only a partial solution.

But a far more important obstacle to attaining unemployment

insurance through state action was the argument that any state which enacted an unemployment compensation law thereby handicapped its employers in interstate markets by burdening them with costs their competitors in other states were not required to meet. It was this argument which everywhere defeated the unemployment insurance bills despite their endorsements, and which came very close to bringing about the repeal of the one law which had been put upon the statute books.

### **Wagner-Lewis Bill, 1934**

This situation naturally led the advocates of unemployment insurance to turn to the national government, particularly as it was then demonstrating in its New Deal program its sympathy for the forgotten man and its willingness to experiment. Scarcely anyone then believed that the national government under our Constitution could itself establish a system of unemployment insurance, so federal legislation was sought which would induce the states to enact unemployment compensation laws. The first such proposal was Senator Wagner's bill of March, 1933 to allow employers to deduct from their federal income taxes a part of their contributions to state unemployment compensation reserve funds. A year later, in February, 1934, Senator Wagner and Representative Lewis presented a radically different proposal to accomplish the same purpose. This Wagner-Lewis bill was drafted in the Department of Labor but is believed to have been suggested by the late Justice Louis D. Brandeis. It proposed the levy of a federal tax upon employers throughout the country against which they might offset their contributions paid to state unemployment compensation funds. This measure was approved by President Roosevelt and, in extended hearings by a subcommittee of the House Ways and Means Committee, was endorsed by Secretary of Labor Perkins, by leading representatives of both groups among the advocates of unemployment insurance, by President Green of the American Federation of Labor, and by an impressive list of progressive employers. Yet it was never reported upon, and in May it was announced from the White House that the Administration would not press for a vote in that session but that the President would soon present a comprehensive program for social insurance, including unemployment insurance. This was followed by the President's social insurance message of June 8, 1934, in which he announced his intention to present a comprehensive social insurance bill to the incoming Congress the next January and his organization of a Committee on Economic Security to study the entire subject and

to prepare the legislation which the Administration would recommend.

### Preparation of the Social Security Act

The Committee on Economic Security consisted of five members of the Cabinet, with Secretary Perkins as the chairman, the author of this article as its executive director, and Thomas E. Eliot as its counsel. The Committee employed a small staff of "experts" and was flanked by a large group of advisory committees, the most important of which was the Technical Committee on Economic Security, whose chairman was Arthur J. Altmeyer, then Assistant Secretary of Labor, and whose members were all selected from the government service on the basis of their special knowledge of some aspect of social security.

Unemployment insurance was the form of social security of greatest interest to a majority of all people connected with the Committee on Economic Security. The subject provoked the most extended discussions and the widest differences of opinion. To add to the old controversies of the immediately preceding years, wide differences developed over the degree of control the national government should exercise over unemployment compensation. The Subcommittee on Unemployment Insurance of the Technical Committee on Economic Security at one of its first meetings decided that it would recommend a federal system of unemployment insurance, rather than legislation like the Wagner-Lewis bill. It made a very genuine attempt to carry out this resolution, but its members could never agree upon the provisions of the federal system of unemployment insurance to be recommended, and it wound up by unanimously recommending a federal-state system of unemployment compensation to be inaugurated through legislation like the Wagner-Lewis bill. That was also the unanimous recommendation of the Committee on Economic Security in its report presented informally to the President on Christmas Day, 1934 and in final form before the middle of January, 1935.

By that time the Committee had ready for introduction in Congress a draft bill, which was discussed in advance with Congressional supporters of the Administration, particularly the leading members of the two committees to which this bill would be referred—the House Ways and Means Committee and the Senate Finance Committee. All these members of Congress were agreed that the federal-state approach was the only one that could be considered and that the Wagner-Lewis bill was the most promising approach, both from the point of view of gaining approval from

the Supreme Court in the inevitable test of constitutionality which would follow enactment of the law and to win the necessary co-operation of the states.

### **Congressional consideration**

The President presented the report of the Committee on Economic Security to the Congress on January 17, 1935, with the recommendation that it enact the legislation recommended by the Committee. He urged that action be taken without delay, because most of the state legislatures, which would also have to act to put the program into effect, were then in session. The Wagner-Dough-ton bill was introduced immediately after the President's message, and hearings on the measure were begun within a few days in both houses. But it was not until August that the Social Security Act became law.

Unlike the people connected with Committee on Economic Security, the great majority of the members of Congress were little interested in unemployment compensation and there was at the time no very great popular demand for any legislation on the subject. Unemployment compensation was, indeed, discussed by many of the witnesses before the congressional committees, most of them being critical of the Administration's proposals. Fully worked out substitutes providing, respectively, for a federal system of unemployment insurance and for the "subsidy" plan were presented to the committees, but received no support whatsoever. The members of Congress throughout took it for granted that if anything was to be done about unemployment insurance, the Administration's proposals would have to be approved. While other parts of the bill were radically changed by the congressional committees, the provisions on unemployment compensation became law almost exactly as introduced.

### **Enactment of the state unemployment compensation laws**

Passage of the Social Security Act did not result in the immediate enactment of laws in all the states. For more than a year progress was distressingly slow. By the time the Social Security Act had been passed the 1935 sessions of the state legislatures had adjourned, and the next regular session in most states did not convene until January, 1937. Even more important was uncertainty as to whether the federal legislation would endure. Congress had adjourned shortly after passage of the Act without making any ap-

appropriation to carry out its provisions (there was no opposition to the appropriation but it failed of passage because of a filibuster Social Security Act). In consequence, the Social Security Board did not begin functioning until October, 1935, and had to get along with a small borrowed staff until Congress appropriated funds after reconvening in January, 1936. And there was still grave doubt whether the legislation would be held constitutional. As the presidential election of that year approached, the future of the Social Security Act seemed ever to become more uncertain. It was not until after the reelection of President Roosevelt by an overwhelming majority that the tide was really turned.

While the Social Security Act was still before Congress, the Committee on Economic Security prepared several drafts of model state unemployment compensation bills. Six states actually passed state laws before the Social Security Act became law and another did so within a month thereafter, during which Congress also enacted an unemployment compensation law for the District of Columbia. Then followed a period of six months in which but one additional law was passed—and that a measure drafted before the Social Security Act became law. Only six additional states enacted unemployment compensation laws before the election, plus which one more state enacted a new law because the Social Security Board would not approve its original act.

In the six weeks following the reelection of President Roosevelt nearly all the remaining states passed laws. The Social Security Act provided that the 3 percent tax on employers was to apply to the payrolls of the year 1936 and that only payments made to state unemployment compensation funds prior to January 1, 1937 would be credited as an offset against this tax. The governors of state after state now convened their legislatures in special sessions "to come under the wire," and these sessions enacted unemployment compensation laws without giving any real consideration to their provisions. To make sure of the approval of the Social Security Board they used the model "pooled fund" state bill drafted by the Board, which its staff plainly preferred to the model state "employer reserves" (really "employer account") bill which the Board also distributed. By the close of the year 1936 all but two states had passed unemployment compensation acts and these two states did so within the next six months.

In May, 1937, the Supreme Court of the United States held constitutional both the unemployment compensation provisions of the Social Security Act and the state unemployment compensation laws on such broad grounds that it appears that almost any kind of an unemployment insurance system would have been sus-

tained, including one operated exclusively by the federal government. Yet until shortly before these decisions were handed down, there was grave doubt whether unemployment compensation would be found constitutional. A committee of the American Bar Association, composed of eminent members of the Bar, reporting in 1936, declared the entire legislation to be unconstitutional; and several of the lower federal courts took the same view.

So it came to pass that in less than two years after the Act was enacted unemployment compensation was securely established everywhere in the United States, and contributions for unemployment compensation purposes were being collected in all states. In accordance with their terms, benefits under those laws were not payable until two years after collection began, but by January, 1939 unemployment compensation benefits were being paid in all states. Each of the 51 "state" (48 states, two territories, and the District of Columbia) laws had some provisions different from every other law, but all had far more similarities than differences. Most of the differences, indeed, were attributable to changes in the successive drafts of the model bills which the Committee on Economic Security and the Social Security Board recommended during the period in which the state laws were being enacted, for not above a half dozen states passed their laws without definite assistance from these federal agencies and all of these early in the game.

### **Concluding observations**

A survey of the legislative developments such as is presented in this article can only inadequately measure the progress which has been made in unemployment compensation in the United States. "The proof of the pudding is the eating." When the test of the results in actual operation is applied, a strong case can be made for the thesis that unemployment compensation has proven a disappointment.

Proof in support of this thesis is afforded by the small benefit payments. In the ten years since passage of the Social Security Act, above 9 billion dollars have been collected in taxes (contributions) for unemployment compensation purposes but less than 2¼ billion dollars has been paid out in benefits. Despite all of the liberalization of benefits, the average benefit for total unemployment now being paid is only \$18 per week. Even in the prosperous war years, large percentages of all unemployment compensation beneficiaries have exhausted their benefit rights before finding employment. As recently as 1941, above 50 percent of all claimants were in this

plight in no less than nineteen states. Nearly a third of all workers in this country, moreover, are entirely outside the protection of the unemployment compensation laws.

Looked at historically, however, this record appears better. Instead of benefits limited to twelve weeks at the maximum, after a four week's waiting period, as the Social Security Board originally suggested on the basis of the forecasts of its actuaries, most states now have maximum benefit durations of twenty weeks and maximum benefits of \$20 per week or more, with a one-week waiting period. These are as liberal as the standards which the champions of uniform federal standards sought to impose upon the states in the period prior to our participation in the war. The average benefits paid have increased even more. As late as 1940, the average benefit for total unemployment was but \$10.56 per week, while today it is \$18. This is not a munificent amount, but much greater than the average of the payments to the recipients in any of the public assistance programs or to the primary beneficiaries in the federal old-age insurance system. While disbursements totaling 2¼ billion dollars in the six or seven years that most states have paid unemployment compensation benefits are small compared with the contributions collected, this figure triples the total of all payments made to date in the old-age and survivors' insurance system. And the present total reserve of 7 billion dollars is much larger than anyone dared hope might be accumulated in preparation for the next depression.

These results are mainly attributable to the full employment which has prevailed during the war. Except for the year 1938, when most of the states began benefit payments, unemployment declined steadily until it reached a modern low in the last years of the war. Under such conditions unemployment compensation was not put to much of a test.

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## FEDERAL-STATE UNEMPLOYMENT COMPENSATION \*

"The Federal-State System of Unemployment Compensation," *Digest of Issues in Social Security*, Part III, Chapter I. Report to the House Ways and Means Committee, 1946. Senate Committee Print, 80th Cong., 1st Sess., 1947.

IN SPITE of the fact that unemployment compensation had been the subject of discussion in this country for almost a generation and that laws have been in existence in all States for at least 11 years, there is still some disagreement as to its primary purpose and its basic principles. It is generally conceived of as a multiple-purpose program, although different groups emphasize different aspects of it.

Perhaps the most generally accepted view is that unemployment compensation is justified primarily as a method of providing income needed to maintain unemployed workers and their families. Instead of emphasizing benefits as a primary objective, however, some regard the program essentially as a device for stabilizing employment. This concept is manifested primarily in experience-rating provisions in State laws, which give employers with relatively stable employment reduced tax rates.

Still others justify unemployment compensation, at least in part, as a device for maintaining consumer purchasing power. This justification emphasizes the effect of benefit payments on business in general, instead of on the individual benefit recipient. It is also conceived of by some as an appropriate device to provide for the best utilization of the labor force. In any case, it is generally agreed that the program should contain safeguards to prevent its being used to depress labor standards or to limit the mobility of labor.

Even though unemployment compensation generally is viewed as primarily a method of providing benefits to unemployed workers, there are differences of opinion as to the extent of protection that

\* In some cases the text presented in this part is the exact language used in *Issues in Social Security*. In other cases the language is new. Factual information has been brought up to date. Issues that have arisen and proposals for change that have been made since *Issues in Social Security* was published are included and the paragraphs which discuss them are indicated in brackets as follows: [ . ].



the program can properly provide. To some it is thought of as a program that should be limited in scope, paying relatively small benefits for relatively short periods. Others hold a much broader view of the protection that it can appropriately provide. They would make the program a major device for meeting the risks of unemployment. It would extend, in principle at least, to all those who work for wages; it would pay relatively high benefits; and it would pay them for relatively long periods of time.

### **Summary of operations under the federal-state system**

In 1946, the most recent year for which figures are available, the total number of different workers who worked in employment covered by State laws was about 45,800,000. Of those, 37,000,000 worked sufficiently long to qualify for benefits should they become unemployed. About four and a half million workers drew some benefits during the year, at an average weekly rate of \$18.50. The average weekly payment has since declined to \$17.68 in the quarter ending June 30, 1947. From the beginning of the program through June 30, 1947, the State agencies collected about \$11,000,000,000 in contributions and in interest, and paid out some \$4,000,000,000 in benefits, leaving an approximate balance of about \$7,000,000,000 in reserves, the highest in history. During the period from January, 1936 through June, 1947, Federal unemployment tax collections amounted to \$1,421,000,000, while grants to States for administration approximated \$548,000,000 and expenditures by Federal agencies for the same purpose approximated \$35,000,000, leaving an approximate balance of Federal unemployment tax collections of \$838,000,000. This balance goes into a special fund for use, until December 31, 1949, in making advances to States whose funds become low.

### **Unemployment compensation during the reconversion**

[While unemployment compensation has never operated through a serious depression, it has functioned during the reconversion period, which involved mass displacements of millions of people. It may be worth while to look briefly at experience during the period from August, 1945, through December, 1946.

[Millions of workers who were laid off after the end of the war had acquired rights to higher benefits than ever before because of high wartime wages. With the high level of employment prevailing at this time, however, many of the workers who lost their wartime jobs found other jobs without filing claims. Their rights to sub-

stantial benefits did not prevent them from taking suitable employment where available. Even among the 11,000,000 workers who filed claims for benefits during the period, more than one-third were reemployed during the waiting period, and drew no benefits. During these 17 months, when millions of war jobs were terminated and when millions of servicemen were being integrated into civilian life, the number of beneficiaries in any week did not exceed 3 percent of the number of workers with rights to benefits, while the total number of beneficiaries was less than a fifth of the insured covered workers.

[While economic conditions were on the whole very good, the postwar period was marked by lay-offs due to retooling, material shortages, price uncertainties and labor disputes. Nearly 7,000,000 workers drew benefits at some time during this period. On the average, benefits were drawn for about 12 weeks and about 40 percent of the beneficiaries were still unemployed when they drew their last check. The average weekly benefit paid for total unemployment was \$18.63, and a total of 1.5 billion dollars was paid out in benefits during the 17-month period.

[Because of this large outlay, and because the average rate of employer contributions declined to a new low of 1.4 percent, funds available for benefit payments failed to rise during 1946 for the first time in the program's history. Still, the nearly \$7,000,000,000 of available reserves at the end of 1946 were approximately the same as they had been at the end of the war. Thus, unemployment compensation functioned through the reconversion practically without dipping into accumulated reserves.]

## *BENEFIT STRUCTURE IN UNEMPLOYMENT COMPENSATION*

*Digest of Issues in Social Security, Part III, Chapter III. Report to the House Ways and Means Committee, 1946. Senate Committee Print, 80th Cong., 1st Sess., 1947.*

STATE LAWS specify the conditions under which workers may receive benefits, and the amounts they may receive. The amounts depend upon each worker's record of employment and wages during a past period, ordinarily of four consecutive calendar quarters, called a base period. The benefit a worker receives for a week of

unemployment approximates 50 percent of his past weekly wages, but will vary from \$3 to \$25, depending on the State law and on his prior earnings. Benefits are usually payable for not more than from 16 to 26 weeks in a 12-month period called a benefit year.

Prior earnings are not the only condition of eligibility for benefits. The worker must also be unemployed, be able to work and available for work, file a claim for benefits, register for work at a public employment office, serve a waiting period, i.e., a period during which the claimant may not draw benefits, and not be disqualified from benefits under any provision of the State law.

### **Weekly benefit amount**

All but three State laws originally provided a maximum weekly benefit amount of \$15. At the present time, 12 States, with 26 percent of the covered workers, provide a weekly maximum of \$24 or more, including allowances for dependents in four of them. Thirty-seven States with 84.8 percent of the covered workers, have a maximum of \$20 or more. A maximum of \$18 or more is provided in 46 States, with 95 percent of the covered workers. Five States, with 5 percent of the workers, provide a maximum weekly benefit amount of less than \$18; and three of these still provide the original \$15 maximum.

Only seven State laws originally provided a fixed minimum weekly benefit amount, which varied from \$5 to \$7.50. Fixed minimums are now provided in all laws except one, and they vary from \$3 to \$10. Seven States have minimums of less than \$5; 16 of \$5; and 28 of more than \$5. Over half the covered workers are in States with minimums of \$7 or more.

At the present time benefits are geared directly in some fashion to past wages. Dependents' allowances, which are provided in five States, depart from a strict relating of benefits to past wages by weighting payments in favor of claimants with family responsibilities. They assume that the claimant with dependents needs larger weekly payments to meet basic living costs than the claimant without dependents.

The proportion of wage loss to be compensated by the program is, largely, a matter of public policy. If the system is to be effective, the proportion should not be so small as to require any substantial proportion of beneficiaries to resort to relief while in benefit status, or unduly to depress living standards. However, the proportion should not be so large as to make benefit status more attractive than work. Decisions on the basic weekly benefit amount will be affected by action on dependents' allowances. If dependents'

allowances are provided, the proportion of wage loss compensated through the basic benefit would probably be smaller than without dependents' allowances.

Just what the maximum benefit amount should be is again largely a matter of public policy. It seems reasonable to make it high enough so as not to require undue reductions in the living standards of higher-wage beneficiaries. Moreover, as wage rates rise or fall, it would be reasonable to adjust the maximum accordingly. Finally it should not be so low as to produce a substantially flat weekly payment. In 1946 more than 90 percent of the payments in two States were at the maximum, and in nine more this proportion was 80 to 89.9 percent. If this result is produced over a period of time, benefit payments would not be related to prior wages in the accepted sense, and it would seem more logical to provide flat benefits, thus eliminating the administrative costs involved in maintaining wage records and computing individual benefits.

### Duration of benefits

The number of weeks for which benefits may be paid in a benefit year varies in most States in accordance with base-period wages, within specified maximum and minimum limits, although 15 States provide uniform weeks of benefits for all eligible claimants.

All except 3 of the State laws originally limited the maximum duration of benefits to 16 weeks or less, 20 providing less than 16 weeks. Today 40 States, with 87.1 percent of all covered workers, provide a maximum duration of 20 weeks or more. Only 9 States provide a maximum of less than 18 weeks.

Because of the nature of the original duration and weekly benefit amount provisions, it is not possible generally to summarize the original minimum duration provisions. Including 14 of the States which provide uniform duration, 16 States, with 31.3 percent of all covered workers, today provide minimum duration of 14 weeks, or more; 22 States, with 48.7 percent of covered workers, provide from 7 to 14 weeks; and the remaining 13 States provide less than 7 weeks for claimants who barely qualify for benefits.

A decision on length of duration involves basically a decision as to what unemployment compensation is supposed to accomplish, and its place in the totality of public programs designed to provide employment or assistance for the unemployed. In the absence of final decisions on these matters, it is still possible to make some general comments on duration.

Duration should obviously not be so short that a large pro-

portion of beneficiaries would normally exhaust their benefit rights. If a large proportion of the beneficiaries were normally required to shift from unemployment compensation to another program for the unemployed, it would seem appropriate to question how the two programs serving substantially the same group could be justified. Assuming effective eligibility conditions, plus financial capacity, it would seem to be unnecessary to limit duration. The actual limit would depend on public policy as to how long benefits should be paid to an individual as a matter of right, without any demonstration of his need, or without his performing any work or training for another job for which work opportunities exist.

### **Potential benefits in a benefit year**

The total amount of benefits potentially payable to an eligible claimant in a benefit year is obtained by multiplying the claimant's weekly benefit amount by the number of weeks for which he may be entitled to benefits, or by dividing base-period wages by the duration fraction. While it is impossible to analyze potential benefits for every eligible claimant, it is possible to analyze potential benefits at the maximums and the minimums provided in State laws. It should be recognized, of course, that the States vary widely in the amount of benefits they provide on the basis of the same wages. Thus, average weekly wages of \$30 and base-period wages of \$1,000 would produce potential benefits varying from \$200 to \$500.

At the present time, 33 States, with 80.7 percent of the covered workers, provide at least a maximum of \$20 per week for a maximum of 20 weeks. Forty States, with 89.2 percent of the covered workers, provide at least a maximum of \$18 per week for a maximum of 18 weeks, and 11 States pay less than \$18 per week or less than 18 weeks or both. One State pays at the maximum \$15 for 14 weeks and one, \$20 for 12 weeks.

Stated in dollars, 11 States, with 42.5 percent of the covered workers, provide maximum annual benefits of \$546 or more; in two of these States, however, only claimants with a specified number of dependents can receive the maximum amount. Twenty-three States, with 38.5 percent of the workers, provide maximum annual benefits of from \$396 to \$520. Seventeen States, with 19 percent of the workers, provide maximum annual benefits of \$360 or less.

At the present time, the benefits potentially payable to the claimant who qualifies only for the minimum under State laws vary from \$5 to \$260. Thirty-eight States, with 80.2 percent of the covered workers, provide minimum potential benefits of \$50 or

more. Thirteen States, with 19.8 percent of the covered workers, provide potential benefits of less than \$50 at the minimum.

The base-period wages required to qualify for minimum potential annual benefits also vary markedly among the States. Six States do not provide any benefits to claimants who earn less than \$300 in base-period wages. At the other extreme, four States provide benefits for claimants with less than \$100 in base-period wages. Thirty-one States require from \$100 to \$200 in base-period wages to qualify.

### Waiting period

A fairly long waiting period was justified initially on two main grounds. One was the belief that financial consideration made it necessary and desirable to limit benefit expenditures for short-term unemployment to conserve funds for prolonged unemployment, and the other was to allow time in which to process initial claims.

All State unemployment-compensation laws originally required a waiting period of at least 2 weeks; 17 required 3 weeks, and 3 required 4 weeks. The majority of States also required additional waiting-period weeks within the benefit year, under specified conditions. Experience over the years has indicated that relatively long waiting periods are unnecessary either for administrative reasons or for fund protection, and States have accordingly reduced them so that no State requires more than two initial weeks; 41 States require only 1 initial week, 32 of them a week of total or partial unemployment; and 1 State, Maryland, eliminated its waiting period altogether in 1945.

### Eligibility conditions

All laws contain eligibility conditions which an individual must meet before he is entitled to receive benefits. Benefits are limited to individuals who have worked in covered employment. Wages in such employment are normally used to reflect such work. If an individual has worked in covered employment for a sufficient time to have qualifying wages, he must, as a further condition for entitlement to benefits, be unemployed, either totally or partially. Since unemployment compensation compensates for wage loss from unemployment due to economic causes, individuals must be able to work and be available for work. Ability to work is generally understood to mean physical and mental capacity for work, and availability to mean attachment to the active labor force. There are, of

course, wide differences of opinion on the meaning of ability to work and availability for work in specific and concrete situations.

Individuals are required to register for work at a public employment office, because such an office provides the only general machinery for determining ability to work and availability for work. The individuals are also required to file an initial claim, which certifies to the beginning date of a period of unemployment. The requirement for periodic reporting (usually weekly) gives the State agency an opportunity to examine the claimant more closely as to his ability to work, availability for work, and other circumstances surrounding his claim for benefits.

### **Disqualification from benefits**

An otherwise eligible individual may not actually receive benefits, at least for a specified period, because of the circumstances surrounding his unemployment. Thus, a worker may be disqualified from receiving them if (1) he has left work voluntarily without good cause; (2) he has been discharged for misconduct in connection with his work; (3) he has failed, without good cause, either to apply for suitable work or to accept suitable work when offered him; or (4) his unemployment is due to a labor dispute.

Disqualifications are intended to prevent payment of benefits to an individual whose unemployment is a result of his own voluntary behavior. Most disqualifications take the form of a postponement of benefits; others take the form of both a postponement of benefits and a reduction or cancellation of benefit rights. During the past few years the trend has been to expand disqualification provisions so as to restrict the rights to benefits of individuals subject to them. This expansion has taken several forms, such as (1) increasing the length of disqualification, (2) canceling or reducing benefit rights, and (3) altering the definition of disqualifying acts. Since 1945 changes made in the three major disqualification provisions appear to have altered the restrictive trend evident in prior years.

In 23 States, disqualification for all three causes now takes the form of postponement of benefits for a limited period only. Twenty-four States provide for cancellations or reduction of benefit rights for one or more of the three disqualifications, and 13 for all three causes. However, in four of these States cancellation or reduction is discretionary with the administrator of the State law. Five States disqualify for the duration of the unemployment for all three causes and seven additional States for one or two of the disqualifying reasons. In a period when few jobs are available, disqualifica-

tion for the duration of the unemployment may mean a complete denial of benefits. This result is true also of provisions which completely cancel benefit rights.

On the subject of disqualifications considerable disagreement exists. In justification of present restrictive disqualifications, it is said that liberalization of benefit schedules requires the States to exercise more controls over the receipt of benefits. Moreover, many of them were enacted during the war period, when all efforts were being made to induce workers to remain on or to go to essential jobs.

On the other side, it is said that restrictive disqualification provisions conflict with the basic objectives of the system, insofar as it is designed to promote labor mobility, protect labor standards, and maintain purchasing power. It is said that unemployment which originates out of an individual's own action cannot be attributed to such actions for more than a specified period of time after which it becomes attributable to the state of the labor market rather than commission of the act. Unemployment thus becomes involuntary in character and should be compensated as such, provided, of course, the individual is otherwise eligible. A variable period, depending on the circumstances in each case, of up to 4 to 6 weeks is suggested by many as an appropriate disqualification period.

In addition, it is asserted that the trend toward restrictive disqualifications is in part due to the presence of experience rating in unemployment compensation. Under most experience-rating plans contribution rates are based on the benefits of former workers which are charged to each employer's record. Hence, it is said, employers are interested in avoiding benefit charges through restrictive disqualifications in order to increase their chances of getting a lower tax rate.

## COVERAGE OF UNEMPLOYMENT COMPENSATION

*Digest of Issues in Social Security, Part III, Chapter II. Report to the House Ways and Means Committee, 1946. Senate Committee Print, 80th Cong., 1st Sess., 1947.*

AS ORIGINALLY PASSED, the Federal unemployment tax applied to all employers who employ eight or more workers within 20 or more weeks in a calendar year in employment covered by the



act. The employment covered included any service, of whatever nature, performed within the United States, by an employee for an employer, except: (1) Agricultural labor; (2) domestic service in a private home; (3) service performed as an officer or member of the crew of a vessel; (4) service performed by an individual in the employ of his son, daughter, or spouse, and by a child under the age of 21 in the employ of his father or mother; (5) service performed in the employ of the United States Government; (6) service performed in the employ of a State, or its political subdivisions; and (7) service performed in the employ of nonprofit organizations such as community chests or foundations organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes. Railroad workers were also excluded when the Congress established a national railroad unemployment insurance system, effective July 1, 1939.

No action was taken by the Congress to broaden to any substantial extent the coverage provided in the original Social Security Act until 1946 when coverage was extended to private maritime employment. Generally speaking, State laws contain the same exclusions as the Federal act, except for employees of small firms.

For the week of August 3-9, 1947, it is estimated that some 34.4 million individuals were protected by unemployment compensation, including 31.4 million under State laws, 1.6 million under the Railroad Unemployment Insurance Act, and 1.4 million under the Servicemen's Readjustment Act. Some 13.6 million wage workers were without such protection. Another 13.3 million self-employed persons in the labor force are not considered within the scope of unemployment insurance for purposes of this report.

### **Employees in small firms**

From the beginning several State laws have applied to employers with less than eight workers. At present, 29 State laws cover employers of less than 8, of which 16 cover employers of 1 or more.

Although more than half the unemployment compensation laws now extend to these smaller employers, universal coverage of such employers within the foreseeable future will probably require congressional action. They are already covered by old-age insurance. The administrative feasibility of such coverage has been demonstrated in the States which have administered coverage of one or more.

### Civilian employees of the Federal government

Except for the temporary program of unemployment benefit for seamen employed by the United States through the War Shipping Administration, the Social Security Act provides no protection for Federal civilian employees. States, of course, are powerless to bring them under State unemployment compensation laws, without appropriate congressional action.

Involved in any consideration of the extension of unemployment insurance to Federal workers are questions of coverage, benefits, administration, and method of financing. Bills which were introduced in Congress in the last 3 or 4 years include proposals for: (1) a completely Federal system, administered by a Federal agency; (2) payments made in accordance with a uniform national scale of benefits, administered by State agencies; (3) payments made in accordance with the provisions of the law of the State in which the Federal service was performed, administered by State agencies; and (4) payments made in accordance with the law of the State in which the unemployed Federal worker files his claim for benefits, administered by State agencies.

### Maritime workers

Originally no State laws covered maritime services because it was thought that there was a constitutional bar to such coverage. When the Supreme Court decisions in May, 1943 on the *Standard Dredging Corporation v. Murphy* and *International Elevating Company v. Murphy* cases altered this situation, maritime service was automatically covered in a few States and subsequently some States repealed the specific exclusion. With the amendment of the Unemployment Tax Act to cover maritime services from July 1, 1946, many States automatically covered these services and others amended their laws to cover them, so that by September 15, 1947, all but eight States provided some coverage for maritime services.

In addition to extending the coverage of maritime workers in the permanent Federal-State unemployment insurance system, the Social Security Act Amendments of 1946 also provided a temporary Federal program of reconversion unemployment benefits for seamen who were employed by agents of the War Shipping Administration. The Federal program became effective on July 8, 1947, when funds were appropriated to pay the benefits provided in the 1946 law, and will continue through June 30, 1949. As a result of this amendment all State employment security agencies are now

paying benefits to these seamen in accordance with the benefit provisions in the State laws.

### **Agricultural workers**

Agricultural workers were excluded from the Social Security Act in 1935 largely because the collection of the tax on their wages would be difficult. In the Social Security Act Amendments of 1939 the definition of "agricultural labor" was amended so that the exclusion was extended to plants that process agricultural products and transport them to market.

Administrative difficulties remain the chief objection to covering agricultural labor, but they do not seem to be insuperable. The problem of collecting contributions might be met by using a stamp book. Deciding when a farm laborer is unemployed and whether he is available for work is one of the responsibilities now faced by States whenever a farm worker, qualified for benefits by nonfarm work in covered employment, claims benefits. Similar decisions could be made if he were covered as an agricultural worker.

### **Domestic service**

Domestic service in a private home, a local college club, or a local chapter of a college fraternity or sorority is excluded under the Federal Unemployment Tax Act. Only one State, New York, has provided protection to domestic workers in those private homes in which four or more such workers are employed.

The exclusion of domestic workers falls principally upon women; over 93 percent of all household employees were women, and household employment constituted the major occupation of 18 percent of the 12.5 million women who were gainfully employed in 1940. The exclusion also falls disproportionately upon Negroes.

### **Nonprofit workers**

Nonprofit organizations were excluded from the Social Security Act in 1935 without any reason being given for the exclusion. Their workers are also excluded from coverage by State laws, except in Hawaii and Tennessee.

The arguments generally given for excluding nonprofit organizations are that their employees are in less need of protection than industrial workers, that the taxes would have to be paid out of charitable donations, and that taxing religious organizations would infringe on religious freedom. In favor of covering nonprofit or-

ganizations, it is argued that at least their maintenance and clerical employees are frequently unemployed, that even religious organizations cover their employees with workmen's compensation and other insurance, and that the administrative difficulties of this coverage would be minor.

### Employees of state and local governments

Although the Federal tax is not applicable to State or local governments in their capacity as employers, several States have extended the protection of unemployment compensation to some of their employees. New York includes almost all State employees. Other State laws cover certain selected groups of public employees, while still others allow election of coverage by political subdivisions.

## FINANCING UNEMPLOYMENT COMPENSATION

*Digest of Issues in Social Security, Part III, Chapter IV. Report to the House Ways and Means Committee, 1946. Senate Committee Print, 80th Cong., 1st Sess., 1947.*

FOR THE MOST part, benefits have been financed from a payroll tax imposed on employers. In line with the suggestion made by the Committee on Economic Security, the Congress made the unemployment tax in the Social Security Act applicable only to employers. At one time or another, nine State laws have required contributions from employees, but only two States—Alabama and New Jersey—now require them.

In the early years of benefit payments considerable concern was expressed as to the ability of State unemployment compensation funds to meet their benefit liabilities. However, because of several circumstances, including the high level of employment during the war period and the inclusion of special war-risk rates in several States, State reserves are, on the whole, adequate to meet benefit payments for any foreseeable future period.

Experience has demonstrated that there are wide differences among States in the rate and duration of unemployment. As a consequence, even if every State had the same benefit structure, benefit costs would likewise vary widely among the States. It seems essential, therefore, that States be permitted to limit tax collections to

the amounts necessary to support their benefit needs. At the present time, the only method by which States can limit their collections is by experience rating. At the end of 1946, 45 State laws provided for experience rating. In 1947 another five States adopted it. As a result, there have been sharp reductions in tax rates. In 1946 the average rate for the Nation was 1.4 percent, as compared with the standard rate of 2.7 percent. The average rate in individual States ranged from 0.3 to 2.1 percent.

It has been suggested that States should also be permitted to limit their collections by flat (or horizontal) rate reductions. Flat-rate reductions would apply to all employers alike, in contrast to rates based on the individual employer's experience with unemployment. A flat rate imposed on payrolls automatically results in high income to the unemployment fund during periods of high employment levels and in reduced income when pay rolls are at a low level. Under existing experience-rating systems, the opposite is true; rates tend to be high during depressions and low during more prosperous periods. A flat rate, moreover, would not penalize new employers.

Whatever the decision as to flat, or horizontal, tax deductions, the requirements that the experience-rating provisions in State laws must meet now in the Federal Unemployment Tax Act might well be reexamined. The requirements are very difficult to apply to specific provisions in State laws. If experience rating is to be continued, consideration might be given to the appropriateness of revising the requirements so as to give the States more freedom in selecting the type of experience-rating system they want. Still another question is whether or not action should be taken to permit the granting of lower tax rates to newly subject employers.

[Support for reduction in the Federal tax from 3 to 2 percent is provided by estimates that the cost of the program for the country as a whole would average less than 1.5 percent if peak unemployment amounted to less than 10 percent of the civilian labor force and somewhat under 2 percent if unemployment were as high as 20 percent. Even with such a reduction the offset provisions could be retained.]

A more radical change would involve shifting from the present tax-offset system to a grant-in-aid system. Specifically, a Federal grant-in-aid system would substitute a specified Federal unemployment tax (1 percent has been suggested), without any offset provisions, for the present provision. Out of the proceeds of the Federal unemployment tax the Federal Government would provide a 50-percent Federal grant-in-aid toward the cost of State benefit payments. It is suggested that Federal grants might begin when a State's

reserve had declined to one-half of its present size. Since one-half of the cost would be defrayed by the Federal Government, it is said that a State would be as well off with one-half of its present reserve as it now is. Moreover, under this proposal, each State would decide for itself how it would finance its half of the cost. Its cost would be financed out of employer taxes, employee taxes, general taxes, or, for a time, by drawing upon the present reserve. If a State financed its portion of the cost through an employer's tax it could retain employer experience rating or not, as it chose.

The advocates of a grant-in-aid system in connection with unemployment compensation base their proposal in part upon what they consider the relatively favorable experience with it in public assistance and in part upon what they consider to be anomalies, inconsistencies, and complexities in the existing tax-offset system.

Against the proposal it is suggested that this method commits the Federal Government to expenditures that are not needed, because the States have fully adequate funds to finance benefits. Moreover, the potential loss to the States of a share of the proceeds from a relatively small payroll tax collected by the Federal Government might, in extreme cases, not even prevent some States from abandoning altogether their unemployment compensation systems. On the other hand, some States might so liberalize their benefits as to result in a disproportionate flow of Federal funds to them.

### **Administrative financing**

As was indicated earlier, Federal grants provide the funds to cover all State unemployment-compensation administrative expenses. While a number of considerations influenced the decision to establish this unique arrangement, probably the major factor was the desire of the Congress to insure adequate administrative financing in all States at a time when the Federal Government wished to give every possible incentive to the States to pass laws. The system has now been in operation for more than 11 years.

In 1941, the last prewar year, a total of approximately 71 million dollars was spent in administering unemployment compensation and employment service functions in the States. In the year ending June 30, 1947, the comparable total was about 126 million dollars, about 57.6 million dollars for unemployment compensation and 68.4 million dollars for employment services. The substantial increase is due in part to higher salaries, higher prices of supplies and equipment, and, in some areas, higher work loads. An important contributing factor, however, has been an expansion in administrative and staff functions.

It may be pointed out that the 1947 total does not include some 3,000,000 spent by the States in administering the readjustment allowance program for veterans. In neither year are the expenses of administering Federal functions connected with the program included.

*The present method.* A primary advantage of the present method is that it provides a national pooled administrative fund for all States. More effective use can be made of such a single pooled fund from which money is allocated among the States, in accordance with their changing needs during the year, than would be possible with 51 separate administrative funds, with no possibility of shifting money from a State where it is not needed to one where it is.

The Congress, which determines the size of the national pool through the appropriation process, has generally made adequate administrative funds available and can be expected to continue to do so, so long as the Federal Government has revenue from the Federal unemployment tax, which, in congressional opinion, is intended for the administrative expenses of the program.

A second advantage is that Federal budgetary procedures offer a way of meeting the rapidly changing needs of a dynamic system like unemployment compensation. Work loads fluctuate widely, both as to totals for all States and in individual States. Since the Congress remains in session almost continuously, it is available to consider deficiency appropriation requests as the need arises. This budgetary method is far more flexible than that of many States. Usually, the amount of money appropriated to a State-financed agency by the average State legislature is fixed for the year or for the biennium, with little or no provision for supplementary funds in case of need.

In spite of its advantages, the present method has been the subject of considerable criticism. One criticism has been that, with complete Federal financing, the States may not exercise as much care in controlling expenditures as they would if they were responsible, in whole or in part, for raising their administrative funds. Some States have criticized the present method on the grounds that it does not provide adequate funds and that Federal budgeting arrangements do not permit proper planning of State agency operations.

The system, moreover, has created a fertile field for disagreement between Federal and State authorities. The States often express the belief that the funds which they receive are inadequate, that the Social Security Administration discriminates among States in its allocation of funds, and that the Administration exercises too

many controls in connection with the granting of funds. On its side, the Administration points to Federal Statutory requirements which State administrative performance must meet in order to qualify for administrative grants. The Administration has taken the position that the Congress looks to it for an accounting of the manner in which a congressional appropriation for administrative grants to States is finally spent. On this assumption it has undertaken to establish controls that, in its opinion, will make reasonably certain that State agencies expend administrative grants carefully and economically.

Despite differences of opinion, Federal and State authorities have worked together to improve the present method. The States now participate in the development of the estimates needed for the annual appropriation request; improvements have been made in the method of allocating funds to States; [and efforts are being made to obtain approval of a contingency fund, which would be used only if work loads exceeded estimates. The establishment of such a fund would introduce additional flexibility into the financing process]. The area of disagreement has been reduced, and there is every prospect that further cooperation will result in additional improvements.

*Suggested changes.* As a result of criticisms of the present system, however, several suggestions have been made for modifying the method of financing State administration.

One suggestion is that present Federal discretion as to amounts of administrative grants be replaced by some type of statutory formula, based on factors such as State populations, areas, claims, loads, etc. The chief difficulty with this approach is in developing an effective and equitable formula and one which would take account of sudden changes in work load.

Another suggestion would substitute a grant-in-aid plan for paying administrative costs. Under such an approach, the Federal Government would match State appropriations. State agencies would presumably go before their State legislatures and justify their budgets. The Social Security Administration would then match the funds appropriated by the legislatures.

This approach would give the States responsibility for determining the amount of funds needed and sharing in the costs of financing administration. To the extent their legislatures permitted, the State agencies would have wider latitude in making expenditures within the limits of the amounts appropriated.

[Another suggestion is that the Federal share of the Federal unemployment tax be earmarked and made available under a continuing appropriation for financing administration. Under this ar-



rangement a designated Federal agency would determine the amounts necessary for administration in each State without specific over-all congressional appropriation. The difference between tax collections and amounts needed for administration could periodically be placed in a loan fund similar to that established by the War Mobilization and Reconversion Act of 1944. Precedent for this type of continuing appropriation in Federal financing may be found in the Railroad Unemployment Insurance Act.

[This proposal would place complete discretion for determining amounts needed by States in the hands of a Federal administrative agency; legislative scrutiny of appropriation requests would then be eliminated.]

The suggestion receiving the most attention is that the offset against the Federal tax be made 100 percent instead of 90 percent, so that the States might collect the 0.3 percent tax now collected by the Federal Government. The States would deposit their collections in their trust funds and then use the trust funds to meet both benefit and administrative costs. Presumably, this approach would require State agencies to go before their legislatures and justify their budgets and obtain their administrative appropriations. If legislatures limited appropriations to the new source of revenue, some State agencies would be inadequately financed. During the year ending June 30, 1947, costs of administering unemployment insurance and employment service functions in 13 States were in excess of Federal collections in those States, which means that a 0.3 percent tax in those States would not have produced enough money to administer the program adequately. As a consequence, proponents of the proposal recommend that appropriations not be so limited. This would mean that in some States reserves originally intended for benefit payments would be used for administration. In any event, complete responsibility for financing would presumably be placed in the States; the Federal Government would retire from the field.

It is difficult to establish a justification for the imposition of a Federal tax which would yield little if any revenue for Federal purposes. The existence of the tax would seem to necessitate the continuation of most, if not all, present tax-collection procedures, including the determination of liability, but the revenue obtained would be limited to collections from employers who, for one reason or another, had not qualified for the 100-percent offset. Moreover, since the Congress would still be basically responsible for the imposition of the tax even if the 100-percent offset were permitted, it seems reasonable to assume that it would continue some controls over the expenditure of the revenue derived from the tax.

*Conclusions.* Any proposal for altering the present method of financing administrative costs involves a great many considerations, but perhaps the basic ones are that adequate funds be provided and the proper controls be exercised over their expenditure. The question now at issue is as to whether the national interest requires the Federal Government to continue its responsibility for assuring adequate funds and controlling their expenditure, or whether that responsibility shall be given to State legislatures. It seems manifest that this responsibility would not be given to State unemployment compensation agencies themselves, since such an arrangement would give a public spending agency final authority to determine the amount of funds it needed to spend.

## FEDERALIZATION THREATENS EXPERIENCE RATING

Paul Raushenbush, "Federalization Threatens Experience Rating and State Laws," *Address to American Photo-Engravers Association*, October, 1941.

LET ME TURN now to the *objectives* of experience rating in unemployment compensation. Without listing them in the order of their importance, I believe those purposes—the major ones, at least—might well be summarized under four heads:

1. Experience rating is of very real importance as a "*policing*" measure. It helps to make sure that employers will continue to take an active interest in the conduct of unemployment compensation laws; that they will help to police the system, to keep it clean, to keep it non-political, to see to it that benefits are paid only to those people who ought to get them under the law.

2. Experience rating should provide a sound and practical method for *adjusting fund income and outgo*, including the building of adequate reserves to assure fund solvency. It can and should work toward a reasonable adjustment of individual contribution rates, in such a way that State reserve funds will become neither excessive nor inadequate to assure the continued payment of benefits even under adverse conditions. In other words, here is a flexible device for adjusting contribution collections, in the light of past experience, present reserves, and possible future benefit disbursements.

3. Experience rating provides for a fair and *equitable assess-*

ment of unemployment compensation costs, as between employers. By basing the contribution rates of employers on their own record, experience rating allocates unemployment benefit costs soundly and fairly; and that is one of its major purposes.

4. Experience rating provides a new and significant incentive to *more regular employment*, and will thereby promote greater job security for an increasing number of workers. I regard this as the most important of the four objectives I have mentioned.

Let me take up those four points, rather briefly, in order.

First, the "policing" aspect of experience rating—whether or not you consider it a primary objective—is of no small importance, even though I haven't much time to develop it. The intelligent participation of interested citizens, both in legislation and administration, is essential to the functioning of the democratic process—in this field, as in others. Labor has some obvious interest in any unemployment benefit law whether or not it includes experience rating. What about employers?

Under experience-rating laws, employers have a direct and legitimate interest in making sure that only proper claims are honored and paid. They know they are footing the bill, with a contribution rate based on their own experience; so they try to improve that experience, and to prevent fraudulent benefit claims. On the other hand, employers are apt to take much less interest in helping to police any "flat-rate" law. Where all employers pay the same flat rate, many of them will feel that the other fellow is footing the bill for improper benefit payments to their workers. Under Pennsylvania's flat-rate law, for instance, recent news items indicate that fraudulent claims are a rather serious problem. As time goes on some of the other flat-rate States are apt to find improper and fraudulent claims a real problem; but in experience-rating States that problem is being kept under better control.

Second, experience rating makes possible a flexible adjustment of fund income—in the light of past outgo, present reserves, and estimated future benefits. It is, of course, vital that adequate reserves be built up, especially in good years, against the expected future drains of bad years. Perhaps there are very few States which can be certain right now that their reserves are already excessive; but some are fairly sure that they would be collecting more than they need if they stayed on a uniform flat 2.7% rate.

Individual employer experience rating is a flexible device for adjusting fund income either up or down—by adjusting the rates paid by individual employers, up or down, in accordance with their actual experience. Of course, any sound system of rate variation should provide for above-standard rates, as well as below-standard

rates. Such a system of "experience rates" enables a state with relatively heavy unemployment to collect more, and a state with fairly steady employment to collect less, in accordance with the industrial pattern and actual experience of each.

*Third*, a major purpose of experience rating is the equitable apportionment of costs between employers. Certainly there is little equity under flat-rate laws, which charge all employers the same uniform contribution rate—regardless of their varying experience. Should a regular employer pay at the same rate as his irregular competitor? Should an industry which operates steadily be required to subsidize the benefits paid because of the seasonal fluctuations of entirely unrelated industries?

The contributions collected from employers under State unemployment compensation laws are not in the nature of a general tax for general revenue purposes. On the contrary, this is a specific payroll levy for a specific purpose. Your contribution payments resemble the premiums you pay for workmen's accident compensation. Here, too, you are buying insurance to protect your workers against an industrial risk, connected with your business operations; and here, too, the premiums should vary in accordance with the varying hazard of different industries and plants. If you are going to have this kind of a specific premium for this specific purpose, then it is only logical, fair and equitable that each type of enterprise pretty much carry its own unemployment benefit costs.

The basic justification for using a payroll levy at all, to finance unemployment compensation, is that irregular employment and lay-offs and unemployment are connected with business operations, and that benefit costs should accordingly be treated and assessed as business costs. Of course some types of business will have heavier jobless benefit costs than others. So what? Plenty of other business costs vary even more widely between industries; yet most American enterprises don't try to pass the hat to get their costs subsidized by other industries. That has hardly been regarded (to date, at least) as the American way of conducting a business.

Why should laundries, or a photo-engraver who provides fairly steady work, be called on to subsidize unemployment benefits for automobile workers, for instance? What equity or justice is there in that?

Let me say also that there are some firms in early every line of industry—including many hundreds of manufacturers, even of heavy goods—with notable records of steady employment, according to our Wisconsin figures.

To come back to my primary point again, it is only fair and equitable that the unemployment compensation experience of each employer shall within reasonable limits determine his contribution rate—whatever his line of business may be.

Most of you will readily admit the force of that argument. You will agree that you don't want to be subsidized by other enterprises, and that you don't want to subsidize the other fellow's operations, as to unemployment benefits or anything else. I suggest that you start persuading other employers on this point—especially those in less regular types of business. You may have a little difficulty in selling this sound business principle to some of the employers who would probably have to pay higher rates under experience rating—such as contractors, for instance.

A few employer groups, because it may cost their particular industries more money, are willing to throw this sound American principle overboard—in favor of a flat-rate contribution system, under which they would more or less pass the hat among other industries in order to subsidize what are essentially their own industrial costs. It would not occur to those employers to pass the hat among other firms to pay their bond interest or the upkeep on their machinery, or to pay their wage bill; but they are apparently quite willing to do it in the field of unemployment compensation. So folks like you, who believe in the experience-rating principle, should start persuading some of your business acquaintances in other industries. You might remind them that sometimes we have to pay a price to preserve the principles and the economic system we believe in.

*Fourth*, the most important objective of experience rating is to promote more regular employment and greater job security for millions of American workers. In view of our Wisconsin experience, it is perfectly clear that experience rating, with its differentiation of individual contribution rates, does provide a new incentive and encouragement to management efforts to provide steadier jobs. Theoretical folk often say that there are many inducements already, and that the incentive offered by experience rating won't make much difference. But we know in Wisconsin, after several years of experience, that a difference of 2.7% or even 1.7% in the contribution rate is a real inducement to management to make efforts which had previously not been made.

As to the importance of retaining experience rating as a continuing factor in American legislation, in order to encourage, induce and reward greater regularity of employment, it ought not to be necessary to say much on that score.

You all know that we must succeed somehow, over the years, in

organizing our productive effort in such a way that more and more people will have worthwhile, steady, year-round jobs in private industry. Now, there is a big long-run job. We cannot duck it. We certainly aren't prepared to say that nothing more can be done than has been done in the direction of providing steadier jobs in private industry for an increasing number of people. We certainly aren't all washed up and through in America. We aren't licked. So that job must be tackled.

There are two main ways to go about it. One is to set up a centralized system of political and economic control, under which officials at a remote seat of government would tell everybody what to do, when to do it, and how. That way lies complete planning and regimentation, from the top down, of every detail of everybody's economic life. Its objectives, of course, would be fuller employment, larger and steadier production, and a higher standard of living. Those are worthy aims; but the means to be used would destroy democracy and liberty.

Americans should need no further condemnation of the totalitarian approach to our basic economic problems. But we might also remember that control from the top down doesn't always mean greater efficiency, or a higher standard of living. European dictators have so far taken up the economic slack in their countries mainly by arming for world-wide aggression. Unfortunately, they have proved fiendishly efficient in that respect; but higher standards of living have hardly resulted from their methods.

In America, right now, our nation's program of defense (and of all necessary aid to countries resisting aggression) is of paramount importance. Even though it requires real sacrifices, it must not fail or fall short. Looking ahead, beyond the present defense emergency, we all hope for a successful outcome to the present world-wide struggle, before too many years have gone by. We look forward to getting back to what will then become our main concern again: the building of a better life and standard of living for all our citizens.

That will mean that we must again work toward a more efficient and larger production of peace-time goods, with the fullest possible utilization of both our physical and human resources. Rejecting—as we must and will—the totalitarian approach to that basic economic problem, how can we solve it in an American way, in line with our traditions of individual initiative and democratic responsibility?

The second alternative way is that which experience rating seeks to promote and encourage. It is that of enlisting the initiative and brains of hundreds of thousands of American employers, managers, business men, and all kinds of other folk—in the common cause of

improving our actual performance, under our present economic system, by striving toward steadier work, with correspondingly larger production, fuller employment and higher living standards.

The "defeatist" critics of experience rating often say that the individual employer in most lines of industry can do very little—taken as a single individual or business—to provide steadier work. Well, there is some truth to that; but it is very significant how much better some employers are doing than others in the same type of industry. That shows up in our Wisconsin figures, and in other states too. In every line of industry, some always do better than the average; and some always do worse than the average. Performance varies a lot, even within the same industry and the same period of time. So there is plenty of room—and possibility—for substantial improvement. America is still dynamic; and gains can be made if we set our minds to it, and pull together in the same direction.

When every individual does what he can, in his own particular line of business—which he knows better than anybody else—and when everyone is doing that the country over, each would be aided increasingly by the efforts and results of others. Stability would gain ground. Over a period of years you might see surprising gains in the direction of steadier, more regular employment, lower costs, lower prices, more production, and fuller employment. Such gains might well prove cumulative, and might accelerate as they work backward and forward to suppliers and customers. Thus we should be able, over a period of years, to make a tremendous improvement in the regularity of the work and the jobs on which our American well-being depends.

Without dwelling further on that theme, I do want to remind you that President Roosevelt, when he recommended the social security bill to Congress about seven years ago, in 1935, not only recognized but stressed the importance of more regular employment. He urged Congress to permit State laws to include experience rating, with a view to encouraging more regular employment, in these words:

An unemployment-compensation system should be constructed in such a way as to afford every practicable aid and incentive toward the larger purpose of employment stabilization. Moreover, in order to encourage the stabilization of private employment, federal legislation should not foreclose the states from establishing means for inducing industries to afford an even greater stabilization of employment.

We hope the President hasn't changed his mind on that; and that he still realizes the long-run importance of more regular employment, by private industry.

### The pending threat of "federalization"

That brings me to the current situation, and to the pending Federal threat to State unemployment compensation laws and their experience-rating systems. You all read the newspapers; so you all know that "federalization" plans are being prepared in Washington right now.

I doubt whether the Administration will propose to this Congress a bill for complete "federalization,"—namely, for a straight national law, with all state laws quickly abolished. The proposal is much more apt to be one for "*partial*" federalization,—nominally retaining state laws, but taking away virtually all control and discretion from the States. The names used for this program will probably be "minimum federal standards" and "reinsurance."

Make no mistake. For all practical purposes, such "partial" federalization would be just as bad as (and perhaps worse than) a straight national law. The word "standards" may sound harmless; and the idea of "reinsurance" or "equalization" may even sound attractive, at first blush; but those words will probably be applied to a far-reaching program for detailed federal control over state unemployment compensation laws and administration. In short, you would have all the details regulated—whether you call it nationalization, Federalization, or merely Federal standards for state laws.

As to experience rating, the pending federalization plan might seek to wipe it out directly and completely and at once; or might seek merely to restrict and regulate experience rating out of existence. In any event, it has become increasingly clear that high federal officials would like to see all funds pooled, with all employers paying a uniform flat payroll tax regardless of varying experience. They don't approve of the constructive emphasis which 38 laws now place on greater job security.

Why should any federal official be urging drastic unemployment compensation changes at this time? Would they help to preserve democracy? Are they necessary for national defense? Has the present federal-state system failed to provide reasonable benefit protection? Has it broken down?

Quite the contrary. State employment services are co-operating fully and effectively in the national defense program. A trust fund in the U. S. Treasury holds large and mounting reserves to the credit of the several states, to meet post-defense unemployment.



States laws are already cushioning the shock of priorities unemployment. Many state laws were improved in 1941, and now provide more adequate benefit protection for the workers they cover. So progress is being made, under the present set-up.

The President and the Congress, as well as American workers and employers, would do well to take a long and careful look at any scheme for federal tinkering with our present system of state job insurance laws, now operating successfully the country over.

Unless and until it has been clearly established that the States cannot handle in a reasonably satisfactory manner the improvement of their own unemployment compensation laws, the importance of having democracy continue to function at the State level should raise a formidable burden of proof against any further extension of federal control in this field.

No matter how "minimum" the character of the proposed standards, it should be recognized that—once additional standards are enacted—the precedent thus set is apt to be followed further, by the enactment of still more restrictions,—until all semblance of State discretion, initiative, and responsibility will have disappeared.

If Congress undertakes to legislate for the State—with State legislatures required to rubber-stamp the decisions reached by Congress—on such matters as weekly benefit amounts, qualifying earnings, partial unemployment, waiting periods, disqualifying conditions, duration, etc. (taking into account the interdependent relations between these various provisions of State laws),—it requires no gift of prophecy to recognize that we will then be embarked on the highroad which leads to a national system,—in fact, if not in name.

We should seek to avoid any further centralization, not genuinely required for national defense. We cannot afford to scrap the states as governing agencies. Of course, many things must be done in Washington these days; but things which are being done successfully back home should continue to be done there, lest the vitality of our democratic government be destroyed.

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## EXPERIENCE RATING IN UNEMPLOYMENT COMPENSATION

Charles A. Myers, *American Economic Review*, June, 1945.

THE CONCLUSIONS REACHED in this brief reexamination of experience rating in state unemployment compensation laws may be summarized as follows:

1. Variations in contribution rates and revenues for payment of benefits are exactly the opposite of the variations in social security contributions suggested as desirable over the cycle by the British White Paper on Employment Policy.

2. Experience rating was intended to encourage individual employers to stabilize employment. Yet the mechanics of experience-rating provisions make it possible for employers as a group to qualify for lower contribution rates when employment and payrolls are rising, largely regardless of their own individual employment stabilization efforts. Increases in contribution rates generally will be necessary, on the other hand, when employment and payrolls are declining.

3. The probable effect of these variations in contribution rates and revenues is to accentuate, rather than to counteract, the swings that ordinarily occur in aggregate demand. Thus, the effect may be unstabilizing on the economy, although the intended effect was to encourage stabilization of employment by individual firms. Furthermore, increases in average rates in depression may act as a tax on the giving of jobs.

4. Although experience rating can serve as an inducement to employers to reduce intermittent and seasonal employment irregularities, which are more within their control, the gains from such stabilization, once they are realized, may be sufficient in themselves to encourage continued efforts. After an initial period of several years, therefore, the novelty of the incentive may wear off.

5. A review of some of the other effects of experience rating in operation indicates that (a) rate reductions are related as much to the stability of the industry as they are to stabilization efforts of the firm, (b) such variations in rates between industries may not be a sound method of allocating the "social costs" of unemployment, (c) firms may increase their chances of qualifying for lower rates by using devices which avoid benefits but do not stabilize employment, (d) employment stabilization may result in more stable work for a

smaller number of workers, although this is not necessarily bad, (e) competition between states to liberalize experience rating appears to have been at the expense of adequate benefit provisions so far as "disqualifications" are concerned, and (f) present variations in contribution rates and revenues under experience rating jeopardize the ability of states to meet large drains on their funds in the future, especially if benefits are liberalized.

6. The "war risk" provisions effective in 9 states during 1943 are a significant development because they are a recognition of the unwisdom of lowering contribution rates generally in periods of rising payrolls. Provisions of this type might well become a permanent part of state unemployment compensation laws.

So long as unemployment compensation is developed and administered in 51 different jurisdictions, however, it seems unlikely that the ingenious suggestion involved in the British proposal will receive much encouragement in this country. The only practical possibility in the immediate future is for the states to consider the strengthening of their unemployment compensation laws in terms of reserves and benefit standards. Continued concern about reducing payroll tax rates in a period of high payrolls can only lead to an accentuation of present undesirable results.

7. This reexamination of experience rating suggests the general conclusion that, without proper safeguards in the form of war-risk provisions, or improvements in the experience-rating formulas as in Nebraska and Wisconsin, the probable social gains from experience rating as it now exists are outweighed by its disadvantages. There is a strong movement in Washington to federalize unemployment compensation and eliminate experience rating, and there are equally strong efforts in the states to retain the present federal-state system with experience rating of each state's choice. Logically, there is no reason why some form of experience rating could not be continued under a federal system, or why certain safeguards and minimum standards could not be incorporated in the state systems. Unfortunately, the whole issue is tied in with a political controversy, and therefore it is not likely to be resolved solely upon its own merits.

## EMPLOYMENT SERVICE IN THE NATIONAL ECONOMY

William Haber, "The Place of the Employment Service in the National Economy," *Employment Service Review*, June, 1947.

OUR ECONOMIC SYSTEM, if it can be said to have been "designed" at all, was designed for change and growth. The change has been rapid and the growth has been quite uneven. It does not, however, seem to have been built for stability—we see evidence of that in every direction, particularly in the fluctuations of production, employment, and unemployment. Job feasts have followed job famine at irregular intervals.

The business cycle, the economists' term to describe the ebb and flow of economic activity, has successfully resisted bold efforts toward stabilization—cyclical unemployment, therefore, has been recognized as a regular part of the free enterprise system. In the depression phase of the cycle the volume of unemployment has at times included 10 to 20 percent of our wage earners; and, during the prosperity phase of the cycle, labor shortages and "tight" labor markets have sometimes characterized our economy. Such ups and downs in demand have greatly influenced the size of the labor force. Under certain conditions it has been expanded by the entry of "additional," "supplementary," "secondary," and "part-time" workers; at other times, under contrary pressures and incentives, the labor force has contracted to more "normal" levels.

Thus we find that nearly 75 million workers have been in "insured employment" under the Old Age and Survivors Insurance program, a program which originally assumed to "insure" about 30 to 35 million workers.

The business cycle is only one of the factors which influence the number of jobs and job seekers. There are also the long-term trends in demand for commodities and labor resulting from changes in population; there are technological changes growing out of progress in scientific management; inventions, which are always coming to light; relocation of industries; and changes, such as mergers, in business methods. In recent years these changes have been stimulated by the rapid growth of research in public and private laboratories. Temporary labor displacement frequently follows such changes, contributing to the flux in the labor market.

In addition, seasonal changes in production and labor demand

characterize a great many American industries, with resultant slack season layoffs involving millions of workers. In fact, it has been estimated that over 60 percent of all the time lost through unemployment is due to this factor alone. Quite apart from the waste of manpower, this seasonal characteristic periodically floods the labor market with off-season job seekers.

In addition, cultural changes growing out of changing habits and customs in consumption, education, and the recreation of the American people, influence the employment pattern, causing a decline in some types of employment and an expansion of others. The expansion of service occupations, the changing role of Government and the increasing service it has assumed in the field of education, public health, and social security, for example, illustrate the effect of this factor upon employment opportunity and its changing patterns.

These are normal forces operating in our economy. They represent social and economic upheavals characteristic of a dynamic society. Their consequence is labor turnover—most of its involuntary. In good times and bad, millions of workers are changing jobs. Lay-offs, quits, discharges, at a greater or lesser rate, occur all the time. The number of the Nation's jobs, where they will be located, the number of workers who will be needed, the skills and qualifications they must have—all these are dependent upon the decisions of thousands of individuals—individuals who take risks and engage in production. Their decisions are influenced by complex institutional forces, often by international events, which cannot be controlled. Change is certain. But, the number of jobs and how stable they are to be, and where they are to be located—these are decidedly uncertain.

### **The nature of the labor market**

The role of an Employment Service in such an economy is to provide the "center" for the labor market. The labor market is a concept, not a single recognizable institution. There really is no such thing as a market for labor at all. There is certainly no market for labor to compare with the organized markets for grain, cotton, stocks and bonds, or credit. So far as the forces influencing the employment process are concerned we have nothing comparable to the "money market" or the stock exchange or the board of trade.

The term "labor market" is merely a convenient way of referring to the various means by which labor supply and resources and the demand for labor are brought together. Sometimes the term refers to the structure of the industries and occupations which make

up the total sources of labor demand. It is obviously a different thing in different communities, depending on the economic activities of the area, on the occupations and types of labor required, and on the methods of recruitment and working conditions. As a result the labor market can be considered primarily as a local "institution." It has, however, regional aspects, and, under present conditions, especially in the United States, it is significantly influenced by national developments. The national labor market has meaning and significance in the sense of a network, or a series of local labor markets, and also in emphasizing the national influences on the demand and supply of labor, on its mobility, and on employment stabilization.

### **The role of the employment service**

In this type of labor market the Employment Service has a specific role. Its major objective is to provide an organized center for the "exchange" of labor; and it is needed for the same reason that markets are needed in other fields:

(a) To provide a central place for securing job information and jobs, thus reducing the time lost by workers in searching for jobs; (b) to centralize the labor reserves of a community, thus making it unnecessary for each plant or industry to maintain its own reserve or surplus in order to be able to meet its peak labor requirements—a condition especially prevalent in highly seasonal establishments or those employing large numbers of casual workers; (c) to provide special services to particular groups in the labor market—juvenile workers who are especially in need of vocational guidance and employment counseling; new workers entering the labor market for the first time; women workers; the aged; minority groups; and the handicapped—all these need the aid of an employment service in their quest for jobs; (d) to provide special services for veterans as required by law; (e) to provide information about the state of the labor market, for the nation, the region, and especially for each important labor market area in the country; and (f) to administer the "work test" for unemployment insurance.

The role of an Employment Service as here conceived makes it an integral part of the social machinery to reduce waste, to bring labor supply and demand quickly together, and to develop the efficiency that comes from specialization and a proper division and distribution of labor. It thus becomes a significant part of the national program for the full utilization of our productive resources. While the employment service cannot create jobs, it can, by utilizing extensive labor market analysis and information, employer-

visiting, vocational guidance, testing, job analysis and evaluation, and by encouraging and advising training programs, at least in part offset the depressing effects of ignorance, immobility, and rigidity in the labor market, and thus help greatly to reduce the adverse effects of frictional, technological, and seasonal unemployment.

### **Its economic contribution**

In economic terms the most important role of the Employment Service is to contribute to the increase in desirable labor mobility, both occupationally and geographically. The relative immobility of labor exerts a striking affect upon the labor market: it results in wide differentials in wage rates; it leads to poor distribution of supply in relation to demand; it adversely affects the bargaining position of workers and their standard of living. The war period, calling for large-scale shifts of occupations and mass migrations of workers to areas of expanding demand emphasized the importance of an optimum amount of labor mobility. It appears to be equally essential in times of peace.

The Employment Service can aid in removing the obstacles to such mobility. These obstacles usually include the lack of skills to fill available jobs, lack of adequate and reliable information concerning job opportunities and working conditions in other occupations, social and psychological resistance to change of occupation, and restrictions on entry into various occupations. In regard to geographical mobility, an added obstacle is found in the additional costs involved in moving and settling down in a new place.

Perfect mobility can probably never be secured. "Human baggage is the hardest to transport," but much can be done to mitigate the obstacles and the Employment Service has a vital role in that objective. Reliable job information can encourage necessary occupational mobility and discourage haphazard and ill-considered turnover. Such information can aid workers in deciding about the prospect of reemployment in their own or related occupations. When these chances are not promising they need to know the occupations and industries that are expanding and the training required. Such information is an indispensable part of a policy to encourage mobility. When coupled with vocational training or retraining programs, vocational guidance especially to overcome understandable resistance to change, assistance in overcoming restrictive rules and customs on entry to certain trades and occupations, and, where possible, assistance in securing financial aid to overcome training costs and costs incidental to moving to other areas, the Employment

Service will contribute materially to labor mobility, thus increasing individual adjustment and the utilization of manpower.

### The employment service and full employment

The role of the Employment Service is not decreased by the existence of a high-level employment. Full employment does not mean there is no unemployment; it means, rather, a condition under which the displaced are able to obtain alternative employment opportunities. Full employment requires that the demand for goods and services be held to a level that will fully utilize our human and material resources. However, public and private policies to assure such a demand for goods are not enough. Such a program requires a more complete organization of the labor market than ever before achieved.

We shall need to know much more about the structure of the labor market and the sources of labor supply and demand. Our occupational analysis program, which has made great strides in past years, will need to be further developed. Migration of workers will need to be geared not only to individual job adjustment, but also to the broad objectives of full use of our human resources.

The Employment Service will need not only to scrutinize its own operations, but to probe into the reasons why we continue to have aimless searching for jobs, the peddling of labor from door to door, individual labor reserves, areas of stranded workers, and labor existing simultaneously with areas of labor shortages. A unified national labor market, representing a network of efficient local and regional labor markets is a vital instrument in a high-level employment economy. The Employment Service must provide that type of labor market. That is its primary function. Everything else it does is directed to that end.

## EMPLOYMENT SERVICE FUNCTIONS

Collis Stocking, "Public Employment Service: Functions and Operations," *Monthly Labor Review*, June, 1948.

**T**HE OBJECTIVES of the Employment Service program are to assist in achieving the nationally declared policies of maximizing employment, job continuity, sustained purchasing power, and



high levels of production. Its "Six-Point Program" is carried out through the local employment offices of the affiliated State Employment Services.

(1) An effective placement service for all job seekers and employers to assist in achieving full use of our production and labor resources.

(2) Employment counseling which assists workers who need such help to determine their present or potential occupational abilities and interests in the light of realistic information about job requirements and employment opportunities. This service facilitates the placement of disabled veterans and other handicapped workers, youth entering the labor market, and other workers with occupational adjustment problems.

(3) Special services to veterans which includes counseling, priority in job referrals, and development of suitable employment opportunities for the disabled.

(4) Industrial services through which occupational analysis materials, personnel aids, tools, and other techniques developed by the Employment Service for the effective selection, assignment, and transfer of workers are made available to employers.

(5) Labor market information and analysis which provides information about labor-market developments on job opportunities on an occupational, industrial, and area basis for job seekers, for employers for the location of plants or the scheduling of production or marketing activities, and other groups whose activities are affected by manpower considerations.

(6) Community participation which calls upon the Employment Service to cooperate in local employment planning programs for maintaining high levels of stable employment.

The United States Employment Service carries out the Federal Government's responsibilities for the employment-service program as it affects not only the domestic economy but also international relations. It cooperates with other departments of Government in carrying out the national policy for the promotion of maximum employment, production, and purchasing power; works with other agencies such as the National Security Resources Board in the development of plans and programs for coping with a national emergency, particularly insofar as manpower problems affect our national security; maintains, in accordance with statutory requirements, a National Advisory Council of management, labor, representatives of agriculture, and the public for analyzing employment problems and making recommendations on the public employment-service system and its activities for facilitating employment adjust-

ment, and for assisting and maintaining high levels of employment and job stability.

Methods and techniques developed in other countries have been modified and expanded to meet conditions existing in this country. A vast amount of occupational research work has been conducted and great progress has been made in defining and describing the 30,000 occupations found in our economy. Test development has been emphasized, and a number of specific occupational, aptitude, and oral trade tests have been prepared. Use of such tests is becoming increasingly important for proper selection and referral of qualified workers in accordance with employers' specifications. Insofar as the tests result in the placement of workers in jobs in accordance with their qualifications and interests, unnecessary labor turn-over is reduced and job stability is promoted.

Following the Second World War, the USES made available to the States a general aptitude-test battery which is becoming widely used as the basis for the improvement of the job-counseling program. Through this test battery it is possible to develop a more complete knowledge than formerly of the qualifications and interests of individuals and to render them greater assistance in arriving at a sound vocational decision. Moreover, its use also serves to increase public acceptance and prestige of the local office as a counseling and testing center in the community.

The USES has made a notable contribution to labor-market information through its local labor-market analyses. Its regular reports provide a unique picture of current employment conditions and employment prospects. Its labor-market information is extensively used not only by the State Services, but by business concerns, private groups, and other governmental agencies whose programs are affected by labor-market considerations.

Since the war, a great deal of experimental work has been conducted in methods of taking applications and in the selection and referral of workers. Extensive use has been made of an application procedure, whereby the applicant provides all the essential information necessary for selection and referral, thus reducing the time required for personal interview. Results have been very good and staff time has been freed for aggressive development of job opportunities for applicants.

### Technical aid and administrative review

The Federal Government through the USES is responsible for leadership to assure that a dynamic program geared to changing

labor-market conditions will be carried on in the local offices of the 51 State and Territorial agencies affiliated with it. The USES prepares and maintains for all States uniform occupational classifications, job definitions and descriptions, and technical aids for the selection and referral of workers to jobs. It prepares specialized materials for the use of the States to assist in the placement of disabled war veterans and other handicapped workers. The USES maintains a national, uniform system for the collection of reports from all States and local officers and analyzes information on employment conditions and employment opportunities for the major labor-market areas, industries, and occupations. This information is exchanged among the local offices and made available to other Government agencies having programs and activities concerned with labor-market developments. In cooperation with the States, the USES, on a current basis, analyzes operating experience with a view to improvement in methods of registering, interviewing, selecting, and referring workers and to maintenance of employer relations for job development activities. It provides staff training materials to the States and works with the States to assure the introduction and adaptation of program materials to meet local needs. Broad guides to the organization and management of employment service activities are developed for use by State agencies.

The farm-labor program which was carried on in the Department of Agriculture during wartime as an emergency program was returned to the USES and affiliated State agencies on January 1, 1948. The USES is responsible for the planning, development, and initiation of policies, standards, organization, and operating methods to assure an adequate system of recruitment and placement of farm workers.

In addition, the USES maintains a clearance system for all types of workers between the several States, giving particular attention to the skills of workers not available in the community in which the demand exists and to professional and technical workers whose employment opportunities are in the national labor market.

## ISSUES IN UNEMPLOYMENT COMPENSATION

*Digest of Issues in Social Security, Part III, Chapter V. Report to the House Ways and Means Committee, 1946. Senate Committee Print, 80th Cong., 1st Sess., 1947.*

PRIOR TO THE ADVENT of the depression of the thirties, assistance for the unemployed was considered generally to be a responsibility of local government. State governments, to say nothing of the Federal Government, were not deemed to have an interest in the problem. Even as late as 1931 only four States provided any aid to the unemployed.

As unemployment climbed from an estimated 1.5 millions in 1929 to 4.2 millions in 1930, to 7.9 millions in 1931, to 11.9 millions in 1932, and to 12.6 millions in 1933, prevailing concepts of governmental responsibility underwent change. The States generally were forced to accept some responsibility for the unemployed. Then, as the problem grew beyond their capacity to handle it, the States and localities turned to the Federal Government.

The Federal Government appeared reluctant to recognize a national interest in aid to the unemployed, but finally such recognition was given. The first step was taken when the Congress, in July, 1932, appropriated \$300,000,000 for loans—later canceled—to States and localities for use in meeting the relief problem. Since 1932 the national interest in the problem of unemployment has manifested itself in widely different programs. Beginning in May, 1933, with an appropriation of \$500,000,000 to be used in making direct grants to the States for emergency relief, the Federal Government subsequently spent billions of dollars of Federal funds through various programs for the unemployed, including the Federal Emergency Relief Administration, the Civil Works Administration, the Works Progress Administration, the Civilian Conservation Corps, and the National Youth Administration.

By the middle of 1943 the emergency programs established during the thirties had been discontinued. In the meantime, however, the national long-range interest in providing for the unemployed had been expressed in the unemployment compensation provisions of the Social Security Act, passed in 1935. Later, in 1938, a special Federal system of unemployment insurance was established for rail-

road workers. In 1944 the Congress expressed the national interest in the unemployment of another special group—the veterans of World War II. This expression of national interest took the form of a provision for readjustment allowances, at Federal expense, for veterans who are unemployed or who fail to earn as much as \$100 per month in self-employment. Again, in 1946, the Congress expressed its interest in another special group—maritime workers who had been employed by the United States through agents of the War Shipping Administration. This expression took the form of a provision for unemployment insurance, at Federal expense, for a temporary period ending June 30, 1949.

In 1946 the Congress also expressed the national interest in another type of unemployment—unemployment due to nonindustrial accident and sickness. It did this by providing a temporary disability insurance program for railroad workers. In 1946, too, the Congress took action to facilitate the enactment of temporary disability insurance laws by the States, by authorizing States which have collected employee contributions to withdraw them to finance temporary disability insurance.

The foregoing indicates the extent to which the Congress has recognized unemployment to be of national concern. It has supported that recognition with billions of dollars for various programs providing emergency relief or work for the unemployed. It has made an important long-range attack on the problem of providing income for the involuntarily unemployed through the unemployment compensation provisions of the Social Security Act. The effectiveness of this attack will substantially affect the extent to which the Congress may be called upon for work relief and other emergency programs in the future. Thus it is of national concern that the Federal-State unemployment-compensation programs for providing income to the unemployed shall be effective systems.

The initial establishment of unemployment-compensation programs is principally attributable to Federal action taken at a time when large relief expenditures were being made. Up to 1935, the year in which the Social Security Act became law, the efforts of the States to establish programs had been almost completely ineffective. Only one State, Wisconsin, had enacted a law. Judging from experience with other types of social legislation, it seems fair to conclude that, without the Social Security Act, many States would not now have unemployment-compensation laws. Although the Social Security Act did not, in specific terms, require States to enact unemployment-compensation laws, it was intended to encourage them to do so, and its tax offset provisions might be described as compelling.

National interest in unemployment compensation thus inspired

Federal action which has resulted in an unemployment-compensation program in every State. The Federal action was, of course, designed to achieve a result—not the mere enactment of State laws, but the creation of a mechanism to aid in solving the problem of unemployment.

The Federal tax coverage in effect insured that certain broad groups would be protected. The connotations of the term "unemployment compensation" prescribed the general approach in providing this protection, as did the requirement of making payments through public employment offices. Beyond this, and some guaranty against misuse of the systems, the development of the programs was left to the States. Thus the amount and duration of benefits, their relationship to past wages, and other matters which determine the effectiveness of the program's attack on the problem of unemployment have been left to State decision.

The question now arises as to whether the national interest in unemployment compensation requires Federal action beyond the limits established in existing law. The Congress is basically responsible for the imposition of the taxes collected under State unemployment compensation laws. Are the conditions imposed for the receipt of benefits and the amounts payable from the proceeds of these taxes such as to be consistent with the national interest in effective unemployment compensation systems? The benefit structures in the various State programs differ greatly—as to weekly amounts, duration, conditions required to qualify for benefits, and as to reasons for and severity of disqualifications for benefits. The question is whether the resulting protection is nevertheless such that the national interest in unemployment compensation is reasonably satisfied, or whether there are some limitations on benefits so pronounced as to require Federal action in this area, which has heretofore been left largely to State action.

With respect to coverage, the question arises as to whether considerations initially resulting in treating some groups of citizens differently from other groups, when the only essential difference between them is the kind of work they do or the size of the firm in which they work, still prevail, or whether the national interest now requires their coverage.

Questions of Federal action in the field of unemployment compensation have sometimes been discussed in terms of States' rights. Without attempting any evaluation of the historical or emotional aspects of this concept, perhaps it might be generally agreed to mean that, as applied to unemployment compensation, the Federal Government should take no steps other than those required by the

national interest. Perhaps it might also be agreed that the Congress must be the judge of what is required in the national interest.

Thus, if the Congress determines that the provisions now contained in the Federal Unemployment Tax Act and the Social Security Act represent the extent of the national interest in unemployment compensation, it will presumably not modify the Federal-State system as it now exists. If it believes that present Federal requirements go beyond the national interest, it presumably will modify the Federal-State system in the direction of eliminating some present Federal requirements and could conceivably withdraw from the field of unemployment compensation altogether. If, however, the Congress believes that present Federal requirements fall short of expressing the national interest, it presumably will modify the Federal-State system in the direction of extending Federal control by introducing additional requirements for States to meet and could conceivably establish a completely Federal system of unemployment compensation.

Any proposal for altering basically the present Federal-State system should be considered in the light of the system's accomplishments. The protection provided by the original State laws has been generally expanded over the years since their enactment in 1935, 1936, and 1937. Speaking generally, weekly benefit amounts have been increased, durations have been extended, waiting periods have been reduced, and in some States new groups, particularly the employees in small firms, have been brought within the scope of the program. The trend has been restrictive only as to the conditions required to qualify for benefits. As a method for protecting workers against wage loss, unemployment compensation is far more effective today than it was in the beginning. Moreover, present methods of administrative financing have been reasonably effective, for new and complicated administrative mechanisms have been established under them which, generally, are now operating efficiently and economically. Finally, reserve funds have been built up which are adequate to meet any foreseeable contingency.

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## OLD-AGE AND SURVIVORS INSURANCE

"Opportunity for the individual to secure protection for himself and his family against the economic hazards of old age and death is essential to the sustained welfare, freedom, and dignity of the American citizen. . . . Since the interest of the whole nation is involved, the people, using the Government as the agency for their cooperation, should make sure that all members of the community are provided with at least a basic measure of protection against the major hazards of old age and death."

OLD AGE AND SURVIVORS INSURANCE, *A Report to the Senate Committee on Finance, Advisory Council on Social Security, April, 1948.*

"I have never been one to believe that any [insurance] company, or any agent of any company, should use Social Security as an approach or a sales tool. In the first place it is a government activity; it's bound to always be wrapped up in politics. We can't tell what will happen to it and we are foolish to endorse it or recommend it in any manner. Another thing the Social Security Bureau is a competitor of the life insurance agent. As long as it exists it is a source of danger to private enterprise as exemplified by life insurance companies. To me there is no sense or use in sticking our heads into that governmental noose any further than we have to."

Harry V. Wade, President, Standard Life Insurance Company of Indiana, "Social Security's Evil Side," INSURANCE INDEX, April 1, 1948.

### INTRODUCTION

THE EXISTING Federal old age and survivors' insurance system consists of two parts: title II of the Social Security Act which provides the benefits and is administered by the Social Security Administration in the Federal Security Agency through the Bureau of Old-Age and Survivors Insurance; and the Federal Insurance Contributions Act of the Internal Revenue Code which levies the premiums and is administered by the Bureau of Internal Revenue of the Treasury Department.

As of May, 1948 the law provides for premiums of 1 per-

cent on the wages of employees and 1 percent on the employer's payroll—making 2 percent in all. The premiums are limited, however, to the first \$3,000 of wages received by an employee from an employer in a year. The premiums are scheduled under the 1947 amendments to increase to  $1\frac{1}{2}$  percent each in 1950 and 1951 and to 2 percent each in 1952 and thereafter.

The revenue received comes into the Federal Treasury, and an amount equivalent to the contributions received is deposited automatically in the Federal Old-Age and Survivors Insurance Trust Fund. A Board of Trustees supervises the Trust Fund. The three members of the Board of Trustees are the Secretary of the Treasury, the Secretary of Labor, and the Federal Security Administrator.

Employers send their contributions and the contributions which they have collected from their workers to the Collector of Internal Revenue every 3 months, on quarterly reports, listing the name, social security account number, and wages of each individual employed during the particular quarterly period. These records are sent by the Treasury Department to the Social Security Administration offices in Baltimore, Maryland, where the records are kept for each individual under the supervision of the Bureau of Old-Age and Survivors Insurance through a method of mechanical bookkeeping.

In allocating administrative responsibility for the insurance program, Congress divided the work between two Federal agencies. The Bureau of Internal Revenue was given the responsibility of collecting the contributions and the responsibility of determining who is required to pay contributions and who is not. On the other hand, the Social Security Administration was given the task of paying the benefits and deciding who is to receive benefits. The language in the law administered by the Bureau of Internal Revenue is exactly the same as that in the law administered by the Social Security Administration in so far as the employments that are covered and excluded and the definition of wages and related terms. Even though the language is identical, the two agencies have not always agreed on how to apply the same language in borderline cases.

The United States is perhaps the only country in the world with a contributory social insurance system of limited coverage which has separated the administrative responsibilities for contributions and benefits. It should be noted that all state unemployment insurance agencies collect both the contributions and pay the benefits. In addition, almost all of the state agencies are completely independent of the state tax-collecting departments.

If universal coverage were adopted, the problems of different interpretations of the same law by two agencies would not be as important as now since all persons who work for a living would be included under the specific terms of the law. Some problems might still arise, however, on borderline cases.

The Bureau of Old-Age and Survivors Insurance maintains some 450 full-time local field offices throughout the United States and in Hawaii and Alaska, where individuals may file their claims for benefits. In addition, there are 1,500 localities in which personnel from adjacent field offices hold office hours at regular intervals in an office provided in some public building, such as the Post Office.

Contributions are collected and benefits are payable on the basis of employment covered by the insurance system. In general, workers in industry and commerce are covered under the insurance plan, but self-employed businessmen, farmers, agricultural labor, domestic servants, employees of nonprofit institutions, Federal, state, and local governmental employees, railroad employees, and certain other groups are excluded from the system at the present time.

Seven types of benefits are provided under existing legislation.

1. Primary insurance benefits are payable to each insured worker who has reached the age of 65 and is not receiving wages of \$15 per month or more from employment covered under the insurance plan.

2. A wife's insurance benefit of one half the primary benefit is payable to the wife of any insured person in receipt of benefits if the wife is 65 years old or over. This benefit is in addition to the benefit payable to the insured worker.

3. A widow's insurance benefit of three-fourths of the primary benefit is payable to the widow of an insured man when she reaches 65. The benefit is payable if the husband dies before 65 as well as when he dies after the age of 65.

4. A widow's current insurance benefit of three-fourths of the primary benefit is payable to the widow of an insured person who has a child or children under the age of 18 in her care.

5. A child's insurance benefit of one half of the primary benefit is payable to each unmarried child under the age of 18 of an individual entitled to a primary old age benefit, or of an insured individual who died, irrespective of age.

6. A parent's insurance benefit of one half of the primary benefit is payable to either or each of both parents of an insured individual who died and left no widow or child under the age of 18. The benefit is payable if the parent was chiefly dependent upon and supported by the deceased individual at the time of his death. It commences at age 65.

7. Lump-sum death payments are payable in the case of individuals who die and leave no surviving widow, child, or parent entitled to benefits, beginning with the month in which the individual died.

The various monthly insurance benefits range between a minimum of \$10 per month to a maximum of \$85 per month. The amount paid to each individual depends upon the amount of wages the insured worker received in covered employment since the insurance plan first became effective and the length of time such person was in the insurance system.

The lump-sum death benefits which are paid may range from a minimum of \$60 to \$300 or more.

In determining the amount of each individual's monthly benefits, the primary insurance benefit is computed as follows:

First, take 40 percent of the first \$50 of average monthly wages; second, add an additional 10 percent to any average monthly wages above \$50, but not over \$250; third, add 1 percent to this sum for each year in which the individual had \$200 or more in covered wages.

This computation yields the monthly benefit payable to

each insured individual age 65 and over. All other payments are based upon this primary benefit. Wives, children, and dependent parents who are eligible for monthly benefits receive one half of the primary amount; widows receive three-fourths. Several persons in a family may receive benefits at one time, but the family total may not exceed twice the primary benefit.

The Social Security Act of 1935 provided for a Federal insurance plan only with respect to old age. Social insurance for survivors of workers was not included in the recommendations which the Committee on Economic Security laid before the Congress.

Survivors' insurance was added to the Social Security Act in 1939, and monthly retirement and survivors' benefits became payable in 1940. The addition of survivors' benefits to the law came as a by-product of a controversy over another issue. Immediately after the passage of the 1935 law there was a great deal of criticism against the financial policy embodied in the Federal old age insurance plan. According to the available actuarial estimates, the contributions and benefits of the insurance plan resulted in an eventual reserve of \$47 billion by 1980. This large eventual reserve was due to several factors: (a) postponement of initial payment of benefits for five years until 1942; (b) low benefits in early years; (c) lack of monthly survivors' benefits; and (d) contribution rates increasing every three years to a maximum of 3 percent each on employers and employees.

Public discussion of these issues resulted in the formation, in 1937, of an Advisory Council on Social Security consisting of 25 representatives of employers, employees, and the public. An important issue before the Advisory Council was the question of whether the investment of the reserves of the insurance system in U. S. Government bonds was sound. On this question the Council unanimously stated: "The members of the Council, regardless of differing views on other aspects of the financing of old age insurance, are of the opinion that the present provisions regarding the investment of the moneys in the old age reserve account do not involve any misuse of these

moneys or endanger the safety of these funds." The Council also recommended a number of changes in the law, most of which the Congress adopted in 1939. As a result of these changes monthly insurance benefits to aged persons, widows, children, and dependent parents became payable in 1940 and were increased.

These changes were all accomplished without any increase in the long-time average cost of the insurance benefits which at that time (1939) was estimated at about 5 percent of the payrolls covered under the insurance plan.

Continued public interest in, and discussion of, the entire social security program resulted in a special study of the program made by the House Committee of Ways and Means. The report of their Staff Director, Leonard J. Calhoun, published in 1946, was embodied in *Issues in Social Security*, a 742-page report. The report, popularly known as the Calhoun Report, does not contain specific legislative recommendations but it does point out alternative ways of correcting existing difficulties in the law.

In 1946 the Senate adopted a resolution authorizing its Committee on Finance to appoint an Advisory Council. This Council was appointed on September 17, 1947, with former Secretary of State Edward R. Stettinius as Chairman, and reported its recommendations on the old age and survivors' insurance provisions on April 21, 1948.

Selections from these various reports are included in the readings in this Chapter. Selections from the Council's recommendations on permanent and total disability insurance are included in Chapter VII.

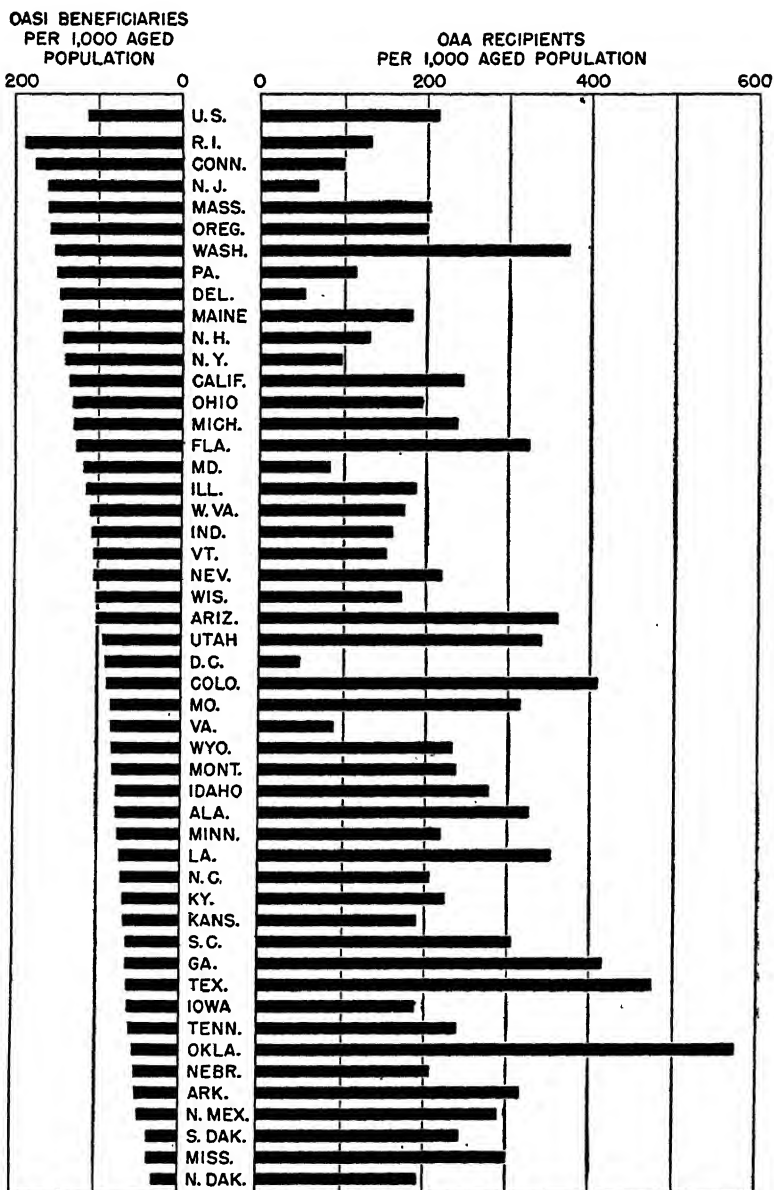


CHART 3. Number of aged persons receiving benefits under old age and survivors' insurance and number receiving old age assistance per 1,000 persons. 65 years and over in each State, June, 1947.

## THE TREND TOWARD AN OLDER POPULATION

John D. Durand, *Annals of the American Academy of Political and Social Science*, January, 1945.

THE POPULATION of most of the Western world is growing older. In the United States, in Europe, and in other parts of the world which are peopled mainly by Europeans, the average age has been rising for a century, more or less, and all signs indicate that it will go on rising for at least a few decades more. This trend is a consequence of a falling birth rate, which has been an outstanding feature of modern population history in these parts of the world. Fewer births mean a shrinking percentage of children in the population, and as the children grow to adulthood, the balance between young and old gradually shifts. Meanwhile the aged, survivors from an era of higher birth rates, steadily increase their proportion of the population.

The age distribution which would result if this trend were to continue indefinitely makes a gloomy picture; a nation of old people, culturally decadent, economically weak and inefficient, powerless in war. Fascist governments have exploited this picture in their propaganda for higher national birth rates as a means of gaining world power. Such an age distribution, to be sure, would be the eventual result of a continually falling birth rate, and it would mark the declining years of a dying population. But no such situation is in prospect for any country. Only moderate changes in age distribution are to be expected in the next few decades if past trends in birth rates are resumed. The shifts which can be foreseen have considerable significance, for they will play some part in a wide range of future economic, political, and social developments. But they are not alarming.

### The United States

The stage which a country has reached in the aging process is indicated approximately by the proportion of children under 15 and people over 66 in its population. In the United States the process has already gone a long way. In 1940, only 25 percent of the population of this country was made up of children under 15, in contrast with 32 percent in 1910, 38 percent in 1880, and 42 percent



in 1850. The proportion of people 65 years old and over stood at 7 percent in 1940, in contrast with something less than 3 percent in 1850.

If past trends in birth and death rates continue during the next thirty years, the proportion of children under 15 will drop from 25 percent to 21 percent in 1970, and the percentage of men and women over 65 will rise from 7 to 10 percent. These figures are based on forecasts under "medium" assumptions regarding future fertility and mortality trends, which were recently prepared by Thompson and Whelpton for the National Resources Planning Board.

As a matter of fact, there is no certainty that the birth rate will behave in the same way after the war as it did before, either in the United States or in other Western countries. During the war and in the late 1930's, the decline was arrested, at least temporarily, and substantial increases were registered in many countries. This development is probably only temporary, but it may presage a future stabilization or recovery of fertility. If the birth rate should level off or follow a gradual upward course in the future, the changes in age distribution, and particularly the decrease in the proportion of children, would be smaller than the Thompson and Whelpton forecasts indicate.

In any case it can be predicted almost with certainty that the average age of the population will go on slowly rising for at least a few more decades. Even if we do have higher birth rates, they cannot have much influence on the form of the age distribution until they have continued for some time. Changing vital rates over the span of a whole life-time in the past, embodied in the present age distribution, have virtually determined the number of adults who will be found in each age group twenty years or so in the future. Independent of the birth rate, the number of aged persons can be predicted beyond the beginning of the next century, assuming no revolutionary changes in the trend of the mortality.

### **The war and future age distributions**

Trends in age composition are among the few kinds of social changes which can be discussed in these times without considering first of all the effects of the war. Great as the bill of lives lost in this struggle will be when the men who die in battle are added to the civilians killed by bombs, starvation, and disease, the effect of these losses on the future composition of the population will be slight

by comparison with the great, continuous shifts caused by long-term changes in the birth and death rates. After the war, when the effect of the population losses upon the future age distributions can be gauged, the result is not likely to be any fundamental changes in the picture shown by the forecasts based on prewar trends, which have been reviewed above.

The United States has been fortunate enough to escape entirely the losses of civilian lives which most of the other belligerents have suffered. The roll of military casualties will be tragically long before victory comes, but unless it far surpasses all expectations it will not make much change in age composition. In this country, the principal effect of the war on the population will apparently be the increase in the number of births which it has caused. The birth rate began to jump during the defense employment boom, and a spectacular increase followed the declaration of war. As a result, the number of children under 5 years of age in 1945 will probably be almost 13 million, that is, a million or so above the National Resources Planning Board's forecasts. This means that the forecasts for the age groups 5 to 9 years old in 1950, 15 to 19 years in 1960, and so forth, will have to be raised. If the birth rate begins to decrease again in the postwar period, as seems probable, the succeeding age groups will fall more or less in line with the projections based on long-range trends.

In Europe, the future age distribution will bear much stronger marks of the ravages of war. The heavy battle losses which European belligerents have suffered will be reflected for years to come by deficiencies for the age groups which are now eligible for military service. The number of children born during the war also will probably be deficient, because of the separation of millions of soldiers from their families and the general disruption of civil life in the areas which have had to serve as battlefields. All age groups will be affected by the bombings, food shortages, and epidemics. The net result, however, is not like to be any considerable change in average age, or in the general tendency for the proportions of children to fall and the proportions of the aged to rise. The same may be said for the British Dominions and other countries which have suffered heavy war losses.

### **Implications of an aging population.**

Age shifts on the moderate scale that is in prospect for Western countries in the next few decades evidently will not be a major factor in the problems of the postwar world. Nevertheless, they will have some bearing on many problems, a bearing which cannot be

ignored in a world which is coming to realize the full importance of planning for the future. A great deal more has been written on this subject recently than can be discussed here, but a few of the most important possibilities can be mentioned.

*Economic implications.* To maintain full employment will, of course, be the paramount economic problem of the postwar period. Some students have predicted that the growing number of "older workers" in an aging population will present a major obstacle to the solution of this all-important problem. High unemployment rates before the war for workers in their fifties and sixties were responsible for the fear that this age group might develop into a chronically unemployable and virtually dependent class, which would bear heavily on the economy as it grew in numbers. The war has shown, however, that the difficulties of the older worker in the employment market are basically a symptom and not a cause of the unemployment problem.

When jobs are scarce, older workers, handicapped by the emphasis on speed, alertness, and adaptability to new methods in modern industrial processes, are subject to high unemployment rates, like young workers who lack experience, and others who stand near the margin of unemployability. But when the demand for labor is high, as it has been during the war, such workers have no particular difficulty in finding jobs; the qualifications for employment are adapted to the available labor supply. Thus the volume of employment depends fundamentally on the demand for labor, rather than on the size of the marginal elements in the labor force. After the war, if the economy can be kept running at full-employment speed with high effective demand for goods and services, the increase in the number of older workers will be no cause for grave concern. Otherwise there will be unemployment and economic disaster, regardless of the age of the labor force.

This does not mean that the aging of the labor force can be ignored as a factor in the employment problems of the future. There is a real danger that as the labor force grows older it may tend to grow more rigid in its occupational structure, and that its geographical distribution may be less easily adapted to changes in employment opportunities. A reduction in the proportion of young workers may have a considerable effect in this direction unless a vigorous effort is made to counterbalance it. Changes in occupational distribution are brought about to a large extent by shifts in the proportion of youths going into various lines of work as they enter the labor force, and changes in the geographical distribution of workers are made chiefly by the migration of relatively young men and women.

In the United States, the population projections for 1970 indicate that the age group 15 to 24 years will then constitute only 22 percent of the total for the "productive" ages 15 to 64, as compared with 27 percent in 1940. Roughly speaking, this means that the ratio of new recruits to the labor force each year is likely to be only about four-fifths as great thirty years hence as it was in 1940. Retraining facilities and placement services with particular attention to the problems of older workers are needed at all times to help prevent the accumulation of excess labor supply in declining industries and in localities where employment opportunities are on the decrease. The aging of the labor force will make such measures all the more important in the future as a part of the effort to keep unemployment at a minimum.

So far as industrial efficiency is concerned, the increased experience and dependability which comes with age may fully compensate for any loss in vigor, speed, adaptability, and so forth, which the labor force may suffer as it grows older. In any case, aging will be an exceedingly minor factor in the future trend of productivity of labor, by comparison with such factors as improved equipment and new industrial processes. If the industrial nations of the West can take full advantage of their productive plant and technical achievements by keeping employment at a high level, they will not need to be concerned over the effect of aging on the efficiency of their workers.

The economics of old-age dependency, too, will be comparatively simple if the all-important employment problem can be solved. On the other hand, if we are doomed to fall back into the economic doldrums of the 1930's, the increase in the age group over 65 will mean an economic burden of no mean weight. Fortunately this increase will be offset, to a greater extent in some countries and to a lesser extent in others, by a decrease in the proportion of children. In the United States, the number of persons 65 years old and over per 100 persons 15 to 64 years old will rise between 1940 and 1970 from 10 to 15, according to the National Resources Planning Board's estimates. At the same time, however, the number of children under 15 will fall from 37 to 31 per 100 of the population 15 to 64, so that the ratio for the two "dependent" age groups to the "productive" age groups will stay about the same. This does not mean, however, that the dependency burden will be no greater in the future than at present, because the needs of a dependent child are not equivalent to those of an aged man or woman.

More important than the weight of the economic load which old-age dependency may impose is the necessity for an efficient,

just, and adequate system of old-age security, which becomes more and more essential as the number of aged people grows. The experience with state old-age assistance in this country shows what inequities may result if these provisions are manipulated for political purposes.

The decrease in the percentage of children should make it somewhat easier in the future to provide children with more adequate education, medical care, nutrition, and recreational facilities. But the shifting age distribution alone will by no means solve this economic problem. For example, in the United States, the projected decrease in the proportion of children during the next 30 years indicates that the outlay per child could be raised by about one-sixth without any additional expenditure per adult in the "productive" age group. In the field of education, an increase in this proportion for the Nation as a whole, applied entirely to improving education facilities in the South, would not be enough to bring the schools in that region up to the present national average. Among all the countries where a decrease in the proportion of children is in prospect, there is not one which can afford on that account to reduce its investment in the health and education of its children. The shift in age composition will only make it possible to raise the standards of child welfare and education a little higher than might otherwise have been economically or politically possible.

The changing age structure of the population also has some bearing on the problem of forecasting trends in consumer demand for certain types of goods and services. It is very easy, however, to overestimate the practical importance of age shifts as a consideration in planning for expansion or contraction of facilities for the production of specific commodities, or in a program of vocational counseling. In countries with an aging population there will almost certainly be a growing demand in the future for those goods and services which are consumed chiefly by old people, and less demand for children's goods than there would have been if the number of children had been larger. In some cases the trend of demand for a particular commodity may follow population changes closely enough to make the latter a significant consideration in planning for the future. But in most cases the age distribution is only a minor factor conditioning the demand. Often the importance of other factors is so overwhelming that any attempt to evaluate the effect of the demographic shift is useless, and in fact may lead to a dangerous error if the other factors are ignored.

There is not a large number of goods or services for which the market consists chiefly of elderly people. False teeth, wheel chairs, hearing aids, and such services as those of "rest homes" are ready

examples, but the list is short and the items on it are not of major importance in trade. There is a larger number of items which can be identified as children's goods and services, but the demand for most of them is elastic and is likely to depend more on other factors than on changes in the number of children. Wherever there is a large, unsatisfied potential demand, changes in consumer purchasing power are likely to be the dominant factor determining the quantities which will be purchased. Moreover, in many cases changes in the habits of consumers, or the development of markets abroad, is likely to affect demand so greatly that it would be hardly more than an academic exercise to judge the effects of a moderate change in age composition.

*Social and political implications.* Some students of population trends have suggested that the tendency for the population to grow older may influence the whole development of social institutions, political ideology, and culture in the Western world. Because old people are likely to be conservative, it is said, innovations in political thought, social customs and institutions, art, literature, architecture, and other fields may be retarded to some extent by the aging of the population.

The apparent tendency for old people to be conservative is probably due to the fact that they spent their youth in a different environment and received a different kind of education, if any, from that of their sons and daughters. When these sons and daughters become the older generation, they will almost certainly be more liberal than their parents are today. Nevertheless, it seems reasonable that some casual relationship does exist between the age distribution of a population and its susceptibility to change, and consequently, that aging must be reckoned as a factor tending *in some degree* to retard innovations. Elderly people are probably in fact somewhat less ready to change their ways of thinking than young people. Moreover, a part of the mechanism of change is the succession of generations, that is, the coming of age of successive cohorts of young people whose ideas, habits, and other characteristics differ from those of the older generation.

As the proportion of young people in the population falls off, the potency of this factor in change will be reduced. But it does not follow that a rise of half a dozen years in the average age implies a halt or even a slowing down of progress in the development of political thought, culture, and social institutions. Constantly rising standards of education and better communication and transportation facilities, bringing the peoples of the world into closer and closer contact, will influence cultural change much more than population trends.

## EMERGING PROBLEMS OF THE AGED

P. H. Landis, *Social Forces*,  
May, 1942.

IN SOME SOCIETIES age is greatly revered, the best that life has to give coming to the old by virtue of the high regard in which the aged are held. Such is the case in Chinese society where honor is accorded in proportion to one's years. In other societies the aged are treated with practical realism, some societies disposing of them by various means because they are an economic burden which the society does not see fit to carry. In other societies tradition calls for suicide when the old person becomes dependent. Old people may be few in numbers in societies with high mortality rates but nonetheless they may, if custom so dictates, be the most influential group in the entire population. They may be relatively numerous, as in our own population, and yet not hold the reins of social control. Age, like most other population characteristics, takes on significance largely in terms of what the group, because of established custom, makes of it.

Interest in this discussion centers about problems of social and economic adjustment of the aged. The general thesis is that in our culture the organic fact of age distribution has a changing significance, not because the various steps of maturation marking the critical points in the life cycle are perceptibly different from what they have always been, but because American culture has been radically modified in the gradual transition from a rural-agricultural to an urban-industrial pattern of life. Numerous changes in the roles that the various ages play, both in their relationship to one another and in their relationship to major activities of the social order, have been affected by this transition in American culture.

It is a matter of common knowledge to the social scientist that the proportion of the aged in the nation has increased and will continue to grow rapidly for another four decades. The proportion of aged (those 65 and over) in 1880 was 3.4; in 1900, 4.1; in 1920, 4.7; in 1940, 6.6. By 1960 the percentage will be 9.8 and by 1980, 12.1, according to predictions of Warren S. Thompson and P. K. Whelpton, population authorities. Absolute numbers of the aged will multiply from approximately nine million now to 22 million in 1980. What is to be the place of this increasing group in Ameri-

can society? This is one of the important questions of internal welfare for our nation.

Long life brings experience and the education which experience contributes. Can these be utilized? Age brings forced leisure. Can an individual after the normally busy years of middle life use it in such a way as to be happy personally and a contributor to the social good? The aged ordinarily have many blood ties. What social advantages or disadvantages accrue? The aged control much property. Can they control it intelligently and for the social good? Much power is vested in them. Should they retain authority and have access to the ballot or should they be expected to retire from all kinds of leadership? What kind of social institutions can be devised to meet the needs of the old of all social classes in a society which seems to have done a better job of prolonging life than of giving to those whose life has been prolonged a satisfactory place in the social order?

In American society the aged group is a problem for a great number of reasons. No definite place for the aged is made in the productive economic scheme and they have only recently been cared for as a subsidized economic group. They are given little place in managing the affairs of the world unless they happen to be vigorous enough to have retained an executive position. But the tendency has been increasingly to retire people even in influential positions when they pass 65 or 70 years of age, as is done in universities and in certain industries. Although there are no stated retirement provisions in political fields, the public is critical of men running for office after they have reached the upper ages. It is, however, true that in court positions, in legislatures, and in Congress a large number of old men who have passed their threescore and five or even their threescore and ten are today in positions of influence and power. It is also true that even though those 65 and over are in about a third of the cases dependent, control of a considerable share of the world's wealth is in the hands of the aged. If a man has been successful in building an industrial empire or in amassing a fortune during his working years, he ordinarily retains his wealth until death. The psychological implications of political and economic control by the aged are probably of considerable importance, although in the absence of data one can only speculate regarding their significance. Since the old tend to be conservative, one would assume that the power of this group tends to exert a conservative influence in the general practices of governmental and economic institutions.

In a society which has only recently begun to consider the aged a major problem group and to develop institutions to meet their



needs, it is to be expected that the aged face numerous problems of psychological, social, and economic adjustment. Their adjustments on these levels to the changing character of society are the crux of the problem of the aged.

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In contemporary American culture general social forces have produced conditions that contribute to the extensive readjustments required of the old—changes produced by mechanical invention, mobility, and urbanization are among the principal forces calling for readjustment. These forces have, in fact, made of the aged population group a new kind of social problem. Among these are adjustment to change of residence, to changes in social roles, to decreasing respect and prestige, and to reduced authority.

In static societies the family never breaks up, for children rarely leave home in the sense that they do in highly mobile societies of the present time; rather, in the large family setting of familistic cultures the family is a continuous affair, the children either remaining in the family or settling near by in the neighborhood or community, so that the pain of children leaving home is not experienced. Neither is the isolation that comes with having lost a family characteristic of static cultures.

In direct contrast, in our society the family as a unit for rearing children is a temporary affair which in the case of many families terminates abruptly with children moving away from not only the home, but from the neighborhood and community. The aging parents are thus suddenly left without the interests in which they have invested the better part of their life's energy and attention during the middle years. It is for this reason, perhaps more than for any other, that intense loneliness so often characterizes the experience of the aged in our culture.

Because of the general habits of mobility in American culture, even the old person may find it necessary or desirable to move in the later years. But even if he remains in his rural neighborhood or small town setting, there is an increasing tendency for neighbors and friends to move out, so that the primary group ties which are so meaningful in age are severed and the aged person finds himself facing the very difficult problem of trying to make new friends at a time in life when making new friends is difficult.

The influences of mobility have been added to the age-long problems of adjustment of old people who, in our culture as in all cultures, must suffer the pain of seeing their friends, relatives, and neighbors parted from them by death. It is, of course, possible that the very fact of extensive mobility in our culture has eased this source of pain to the aged, in that separation by distance tends to

make people less conscious of the loss through death of friends and relatives.

Even the institutions in which the old person is rooted often prove to be transient. He may actually outlive them, as numerous old people have done in open-country areas and hamlets, where the church of their childhood and middle-age has closed its doors with the general shift toward village-and-city-oriented church life. The old social organizations that played such a part in the rural community during the horse-and-buggy days have been replaced by the more specialized, individualistic organizations in which the old person may have little place.

But the adjustments required within rural life cannot compare with the radical personality adjustments that are necessitated when an old person transfers from rural culture to urban culture, as some must do in going to live with children, or in entering under the care of some public institution.

In a mobile society even adjustments to material objects may be important, for such objects in the person's environment take on value in proportion to the experience he associates with them. To the old many objects that are worthless from a monetary viewpoint may be full of meaning because of the numerous experiences that these objects revive in memory. Because material objects do have rich meaning it is extremely difficult for the old who have lived in fairly stable environments to adjust to any change that may have to be made in such objects. But most old people do have to give up some of these objects of value. As they become unable to carry on independently, one of their grown children may move into the old place and begin to destroy old articles which to him are cumbersome and worthless. Again, in some case the old person is compelled to move from his old home, and all that he can take with him of the past is a few of his smaller possessions. It is often a heart-rending experience for the old to leave behind the environment and the objects that have been woven throughout a lifetime into the warp and woof of experience until they are a part of the personality.

The old experience a radical transition in institutional participation. Frequently in the case of the old person who is in ill health or who lacks means of getting about, he must cease his participation in social institutions of which he has been a life-long member and this at a time when he most needs the institution from the standpoint of passing time and receiving the stimulation of the company of others. Often he must cease attending church. Fortunately in our time he may substitute the radio, if he has access to one, receiving from its programs some of the benefits of

his former participation in religious and other activities. But in all social organizations he is likely to play a much less prominent role than he has been accustomed to playing, a change which is difficult to make at any age in life. There is the painful experience of shifting from a situation in which he has exercised authority and in which his word has been respected to a position in which his authority has been relinquished to another and his ideas are considered out-of-date. The decreasing energy of old age may prepare the individual somewhat psychologically for this transition, but to be no longer a leader when one has been a leader carries with it its own problem for many who are forced to drop out of active participation in institutional and organizational leadership before they choose to do so, as, for example, because of retirement provisions of certain institutions.

If he turns to attempts at reformation as a substitute for leadership activities, he often becomes an old fogey, for reforms that are considered desirable are not expected to come from the aged. He belongs to another generation whose society in a dynamic age has passed out of existence. He may, if no longer able to be active because of lack of physical prowess and energy, learn to be content with daydreams of yesterday's achievements. Unable to do those things which bring the admiration of one's fellows, he seeks an audience that will listen sympathetically to the tales of yesterday's exploits. Because the middle-aged are too busy to listen, he must seek the association of those of his own age or better still of children who, if they are not too sophisticated, are ready to listen wide-eyed to his tales.

More serious still is the frequent necessity of old people having to enter institutions with a regimen which is entirely new. Strangely enough, until very recently the special institutions provided for the aged were based on the assumption that the old person who needed institutionalization was a pathological type. Old folks' homes, county poor houses, and other such institutions which society provided were definitely organized for the pathological individual. If the old person goes to live with relatives there is the problem of learning to adjust to the domination of his own children and of learning to get along with grandchildren.

The aged possess the wisdom of experience. In many cultures such wisdom is prized highly because it provides the safest guide the group possesses; in all culture it has value in certain realms. Its value decreases in proportion to the degree of development of scientific wisdom and of scientific techniques for control. Its value is greatest in those cultures which have neither a developed scientific complex nor a written language. In such cultures the wisdom

of the race must be passed on by word of mouth from generation to generation. The old have had time to absorb the tradition of the group and also to help build tradition; it is they who are most able to pass it on. In such cultures the wisdom of experience is good; in fact, the best kind of wisdom, for it reveals how man has triumphed and how he has been defeated, showing, therefore, how he may best pick his way cautiously forward.

In a highly complex modern culture, with written history and with science, age is not a criterion of wisdom. Much of learning is acquired not by direct experience but by education; much of man's knowledge of how to do things in a technological age comes by way of science and invention and not by absorbing traditional folkways. In such a culture, youth may soon outstrip the surviving old, both in wisdom and in the mastery of the methods and techniques of a mechanical age. True, the aged may have a practical slant on many phases of life that only experience can give, but youth are their masters in the world of action and all too often set aside the superior judgments of the aged, even though that judgment carries the sanction of tradition. In the rapidly changing society there is an inevitable conflict between youth and age. In our culture it seems to be as much moderated by the progressive aged mimicking youth as by youth catering to age.

Within our culture there are vast differences in the extent to which the wisdom of the aged is respected and has utility. The more backward and static the area the greater the likelihood that the aged will be esteemed for their wisdom and hold a place of control in affairs of the community. In geographically isolated, mountainous rural areas where educational standards are low and technology has not advanced beyond the horse-and-plow stage, the old have an important place in society and their wisdom is highly respected. In all rural areas, the authority of the aged is given more deference than in urban areas. Many of the details of planting, harvesting, curing, and storing crops; of breeding, feeding, caring for livestock; of butchering and processing meats and foods; of controlling weed, insect, and other nature pests; of building up soil and retarding erosion; of making fences and maintaining other property are still in the realm of folklore and not of science. They are passed on by word of mouth within the family and neighborhood and are best known by the old.

At the other extreme is the highly developed urban-industrial, technical culture based on recent and ever multiplying scientific inventions. In this culture the wisdom of the aged is the "dead hand," and the "voice of experience" is the raspy voice of yesterday.

In this world, whirl is king and only those quick to learn and agile at forgetting can avoid dizziness.

More advanced phases of rural culture mark the big middle zone between the two worlds described. The graduate of the agricultural college puts the wisdom of the aged to shame in spheres where science and technology have affected agriculture, and the scope of this effect is constantly being extended. The old have undoubtedly lost some of the satisfactions and prestige accorded them in an agrarian age when their wisdom was more highly regarded than it is today.

A corollary to the preceding discussion is the significant fact that the aged have lost much of their power of social control in family and kinship groups, with the result that it is difficult for the patterns of behaviour of one generation to be stamped on the characters of succeeding generations. In society where kinship organization predominates, the stamp of life of the elders is firmly impressed upon children and youth in the close knit family and neighborhood group. The elders are always present, and variations from the standard pattern are firmly discouraged. Because the moulding process can be so complete, comparatively few formal checks are necessary to achieve effective control. Taboos, mores, accepted rights, standardized practices, the experience of elders, their recognized voice of authority, are sufficient to keep life orderly and consistent.

The current problem of the aged seems to spring largely from the fact that we have developed a highly individualistic family in which the rights of marriage partners to enjoy the full development and expression of their personalities unhampered by their parents is generally recognized, and in which the rights of children are given precedence in family philosophy and in social thinking over the rights of the grandparent generation. Unfortunately, from the standpoint of the happiness of the aged in an urban-individualized culture, with its anonymity, its small families, and its cash-to-mouth living, there is little place for the old in the family circle and there is, therefore, great loneliness and isolation.

In this highly individualistic family, it is easy for the child of 10 to see that his grandparents are out-of-date, that their ideas are old-fashioned; and since the child is given equal rights, it is often considered quite proper for him to criticize or openly challenge his grandparents' opinions. Under this kind of family pattern, which seems to be increasingly in evidence in American society, the problem of keeping the aged person within the family becomes

more difficult and leads to numerous problems of relationships between the members of the three generations.

It must, of course, be recognized that a part of this antagonism between the generations is due to the increasing congestion of modern urban living. The family unit lives in a compressed environment in which personalities must tolerate each other in an intimate way. In such an environment there is no escape from conflict if conflict exists.

Certain new organizations of a voluntary type have indirectly made their contribution to the happiness of the aged. Undoubtedly, the numerous Townsend Clubs throughout the country have given the old a new focus of interest; they have united old people in numerous communities in a crusade, stirring their emotions with new visions; giving them a cause for which to work and fight; giving them a sense of unity with their fellows in a world in which they are barred from most forms of normal social participation, a unity with people of their kind, such as many old people lack in an age that coddles, protects, and humors the old but does not use and often does not heed them. "Support the Townsend movement and it will support you" is a challenge. It may well be that the Townsend and similar utopian crusades of the last decade have made their greatest contribution to the welfare of the aged by virtue of emotional and social stimulation rather than by the influence which they have undoubtedly had on American politics and American social philosophy.

Predictions are always difficult in connection with a problem so deep-seated and so extensive as that faced by the aged in contemporary American culture. On the other hand, in view of the increasing attention being given to financial needs of the aged, the increasing improvement of devices for transportation and communication, the increasing awareness of the desirability of providing the aged with types of social activity that are interesting and zest-giving, and the growing realization that most old people would be much happier if they could be making some basic contribution to American life, it seems likely that the nation could, and probably will, develop during the current generation much more effective means for increasing the happiness and the social usefulness of the aged.

Unfortunately, we seem now to be in the midpoint of transition from a semi-familistic rural culture, which gave the aged a normal place, to an individualistic urban-industrial society in which it is just beginning to be realized that the aged need to play more defi-

nite roles. Many of the institutions and philosophies needed to give them an active place await the making.

Social security programs are so new that it is not yet possible to know all of the adjustments that will be required by their initiation. That they will have far-reaching implications to many phases of American social and economic life is not to be doubted.

Salter suggests that old age pensions and annuities are likely to have a bearing on problems of submarginal land use. He predicts that back-area communities which impose less rigid standards of consumption upon the individual are likely to draw a larger number of pension recipients. In these areas cheap land and cheap living, at least as compared to the cost of living in urban centers, are possible. In addition, there are the attractions of country life. Such areas, he feels, will be especially attractive to the old if they offer good fishing. He admits these suggestions are more or less speculative, and yet they seem plausible, and their effects probably will be noted in many rural communities which will be taken over by old people.

Hady and Johnson call attention to a related problem of a group not eligible for social security benefits—farmers 65 years of age who are ready to retire. About 800,000, or 12 percent of farm operators, are now in the group 65 years of age or over. Persons in this group find it difficult to retire when they are financially able to do so because it is not easy to liquidate a farm at a reasonable price when one is ready to sell. Moreover, the farmer, if he should sell, does not know how to reinvest his money to advantage. Finally, suitable homes for farmers seeking retirement are often not available. Because these farmers cannot retire, many young men wishing to establish themselves in farming are unable to because of a shortage of farms.

The Farm Security Administration is granting loans to young men to help them become farm operators. Hady and Johnson suggest that some quasi-public corporations be given authority to purchase farms from operators who wish to retire, giving in exchange investment bonds of the corporation, these bonds to be secured by the real estate owned and to be guaranteed by the government. Farms could in turn be sold to the young farmers by the corporations on long-term contracts.

Another important supplement to the program suggested by these writers is the development of suitable retirement homes on small tracts of land in rural areas where the person selling his farm could find a satisfactory location for his later years.

Here we have a problem recognized and a possible means of solution suggested. The main point of interest is that further at-

tention must be given to the problems of the aged, not only in terms of their needs but also in terms of the needs of the younger generation.

The need for new institutions for the aged is becoming generally recognized. Prolonging life is futile unless the comfort and happiness of the old and infirm are given more consideration. On the other hand, it is just as important to regard realistically some of the difficulties involved in an aging population and a social philosophy that caters to the needs of this population group.

Goals of life change with age. The major cultural values of a society, are, therefore, likely to be affected by the proportionate size of the various age groups it contains. Under our culture the aged now seem to want security, entertainment, and a certain amount of luxury. These values are contradictory to the highly competitive values that have characterized the past history of the United States which has been a youthful, overly aggressive, overly-energetic nation. To the extent that the goals of the aged come to affect the patterns of American civilization the nation may age in its ambitions, life goals, and attitudes. On such matters one can only speculate.

The aged require more extensive hospitalization, are a more dependent group, and are less productive than other adult groups in the population. The burden of programs ministering to them is likely to increase as the numbers of the aged increases, and in fact to increase altogether out of proportion to the increase in the numbers of the aged. This is likely to be true for a number of reasons. First, our society has become, as we have seen, increasingly conscious of the needs of the aged and, therefore, more responsive to their cry for assistance. Programs for socialized medicine, for socialized hospital care, for respectable old people's homes, for increased pensions and annuities, are likely to increase in popularity, at least for a time. Second, the old age group is likely to become an increasingly effective pressure group. The aged represent approximately 11 percent of the voting population at the present time; they will by 1980 perhaps constitute 17 percent of the voting population. Because they are for the most part an idle group, with more time to read and listen to the radio and to public addresses than any other group, they can probably be exploited more easily than any other group by those political and social leaders who present to them utopias in exchange for votes.

The group's influence is even more extensive than its numbers. Utopian schemes which promise gold bricks to the aged will always retain a certain following among their children, who may in some cases hope to share the benefits of a pension to their parents. It



seems likely that the aged will become an increasingly effective pressure group and will influence state and national politics more vitally in the future even than they have during recent years. In some states with a large ratio of the old it was difficult even during the 30's to defeat pension plans, ham-and-egg measures, and other utopian schemes which made impossible promises to the old. It may be difficult, or even impossible, to defeat such measures thirty years from now.

Moreover, rising pension costs have already threatened the welfare of childhood and youth, by making such demands on state revenues that educational institutions have suffered. There is danger that child welfare programs may also suffer, because children can never focus attention of politicians on their interests by pressure tactics, nor can they exchange votes for benefactions. The Committee on Population of the National Resources Planning Board shows that if all the 22 million old people in 1980 were to receive cash benefits raised by direct taxation the average tax on each man and woman of the productive age classes would be \$24 for each \$100 paid to an old person.

The demands of the old are rapidly increasing; their standards of living are rising. They are beginning to expect much more of life because of the expansion of programs designed to give them a more enjoyable old age. These growing desires coupled with the facts outlined above regarding the likelihood of their becoming an increasingly effective pressure group are suggestive of problems that will develop. The extent to which all essential needs of the aged can be met without jeopardizing the equally vital interests of children, youth and of the middle-aged in our society is a matter which needs careful consideration by social scientists as well as by statesmen.

It would not be surprising, if the old continue to function as an organized pressure group, to see movements put on foot during this generation to disfranchise those who reach retirement age, in order to protect the interest of other age groups in the population. Never before in American political life have we had an organized social-political group based on age as such and representing the interests of a biologically differentiated population group within the white population. It brings with it new problems that may be as threatening to the foundations of democratic procedures as other class interests based on racial, social, and economic distinctions have been.

## PRESENT PROVISIONS OF OLD-AGE AND SURVIVORS INSURANCE

*Issues in Social Security*, Chapter I. Report to the House Ways and Means Committee, 1946.

THE JANUARY, 1935 report of the Committee on Economic Security stated that

18,000,000 people, including children and aged, are dependent upon emergency relief for their subsistence and approximately 10,000,000 workers have no employment other than relief work. . . . At least one-third of all our people, upon reaching old age, are dependent upon others for support.

It was with this background of depression and large Federal expenditures for relief that the President's message recommending social-security legislation was received and acted upon by the Congress. The immediate problem of destitution in old age was, of course, that of persons already old. Some 31 States had old-age pensions, and the President recommended that

the Federal Government assume one-half the cost of the old-age pension plan, which ought ultimately to be supplanted by self-supporting annuity plans.

While a Federal contributory system was also recommended, inclusion of older workers in that system was regarded as presenting such problems that those over 60 at the beginning of the system were to be excluded. Older workers below this age were viewed as persons who should be included in the system, but who could not "accumulate a substantial reserve." The report recommended that these persons "nevertheless be paid reasonably adequate annuities upon retirement" and suggested that this could be accomplished either by way of

assistance under old-age pension laws on a more liberal basis than in the case of persons who had made no contributions, or by a Government subsidy to the contributory system itself.

The specific contributory plan presented was that workers middle-aged or older would receive annuities

substantially larger than could be purchased by their own and the matching contributions, although considerably less than the annuities which will be paid to workers who contribute for longer periods.

As annuities of only a very few dollars per month could be "earned" by these older workers and large subsidies would be required for "unearned" parts of their annuities, the report recommended that these unearned parts be eventually offset by Federal appropriations. To avoid a large reserve it was recommended that Government contributions be delayed until the fairly distant future. The report concluded that this procedure "amounts to having each generation pay for the support of the people then living who are old."

The proposed contributions were

1 percent of pay roll, to be divided equally between employers and employees, which is to be increased by 1 percent each 5 years until the maximum of 5 percent is reached in 20 years.

Thus, in the initial recommendations for a compulsory contributory system, the problems of adequacy of early benefits, size of reserves, and contribution rates were raised.

One of the most important questions, that of employments which should be covered by the system, was discussed very little. One aspect of it was recognized to a limited degree by the statement that

there still remain unprotected professional and self-employed groups. . . . Partly to meet their problem we suggest the establishment of a voluntary Government annuity system.

Broadly speaking, the OASI legislation enacted by the Congress followed the general plan above outlined. However, the plan which was adopted called for (a) an initial contribution rate of 1 percent from employer and 1 percent from employee, instead of one-half percent from each; (b) a one-half percent increase each 3 years instead of each 5 years; and (c) a maximum rate of 3 percent each after 12 years rather than  $2\frac{1}{2}$  percent after 20 years.

Probably the most important considerations in the minds of the Congress in creating the contributory system are reflected by a statement in the report of the Committee on Ways and Means accompanying the proposed legislation as to the prospective costs of noncontributory pensions, reading as follows:

Unless a Federal benefit system is provided, the cost of old-age pensions under title I, shared equally by the Federal Government and the States, would by 1960 amount annually to more than \$2,000,000,000 and by 1980 to nearly \$2,600,000,000, on the basis of an average monthly pension of \$25.

To keep the cost of Federal-aided State pensions under title I from becoming extremely burdensome in future years, and to assure support for the aged as a right rather than as public charity, and in amounts

which will insure not merely subsistence but some of the comforts of life, title II of the bill establishes a system of old-age benefits, paid out of the Federal Treasury, and administered directly by the Federal Government.

### **The 1939 amendments of OASI**

In January, 1939 the President transmitted to the Congress a report of the Social Security Board recommending changes in the OASI program. The basic changes recommended were along the same lines as those unanimously recommended by the Advisory Council on Social Security, consisting of some 25 outstanding representatives of employees, employers, and the general public. These recommendations related to (1) increasing early benefit payments, (2) establishment of survivors' benefits, and (3) covering additional employments. In general, the coverage recommendations were not adopted by the Congress, but the recommendations relating to benefits were adopted. As these constitute the framework of the existing OASI benefit provisions, they are given below.

### **Increasing early average benefits—Decreasing future average benefits**

Recommendations I and VIII of the Advisory Council were:

I. The average old-age benefits payable in the early years under title II should be increased.

VIII. In order to compensate in part for the additional cost of the additional benefits herein recommended, the benefits payable to individuals as single annuitants after the plan has been in operation a number of years should be reduced below those now incorporated in title II. If the national income should increase in future years, these reductions may not be necessary.

To carry out these recommendations a basic change was made in the method of determining the benefit amount. The then existing method was based on the total of wages from employments covered by the act. An individual with total wages of between \$2,000 and \$3,000 would have become entitled to monthly retirement benefits of one-half percent of his wages, i.e., between \$10 and \$15. An individual with total wages of from \$3,000 to \$45,000 would have benefits of \$15 plus one-twelfth percent of wages over \$3,000. A monthly benefit of \$50 would thus be reached with total wages of \$45,000. Wages above \$45,000 would increase benefits by one twenty-fourth percent. To limit annuities, an \$85 maximum was provided.

Such a formula as that described above was unsuited to meet

the problem of liberalizing retirement benefits in the early stages of the plan and reducing later costs as the system matured, or the problem of providing appropriate amounts for the new system of survivors' benefits. By and large, regardless of the age of the system, an insured worker who dies leaving young children will have been in the system only a few years. His total wages will accordingly be modest, regardless of his wage level. A \$200 per month man in the system 2 years and a \$50 per month man in 8 years would have the same total wages. The Congress accordingly changed the basis of benefits from total wages to average wages.

The benefit formula adopted by Congress is the sum of 40 percent of that part of the average monthly wage not in excess of \$50 and 10 percent of that part of the average monthly wage, if any, in excess of \$50, increased by 1 percent for each year in which the wage earner received at least \$200 in wages. The 1 percent increment was adopted in order that length of covered employment, as well as average wage, would be recognized.

Thus the benefits of persons with various wages are:

AVERAGE MONTHLY WAGE	MONTHLY BENEFIT
\$25.....	\$10 plus 10 cents per year of coverage.
\$50.....	\$20 plus 20 cents per year of coverage.
\$100.....	\$25 plus 25 cents per year of coverage.
\$250 (max.)...	\$40 plus 40 cents per year of coverage.

Widow's benefits are three-fourths the wage earner's; wife's, child's, and parent's, one-half. These will be described later.

### Dependents' benefits

The benefits provided wives, widows, children, and parents, as has been noted, are percentages of the wage earner's benefit. The general eligibility conditions and amount of benefits provided for wives, children, and survivors follow closely the recommendations of the Advisory Council. These recommendations are set out below:

IV. The minimum age of a wife for eligibility under the provision for wives' supplementary allowances should be 65 years; provided, that marital status had existed prior to the husband's attainment of age 60.

V. The widow of an insured worker, following her attainment of age 65, should receive an annuity bearing a reasonable relationship to the worker's annuity; provided, that marital status had existed prior to the husband's attainment of age 60 and 1 year preceding the death of the husband.

VI. A dependent child of a currently insured individual upon the

latter's death prior to age 65 should receive an orphan's benefit, and a widow of a currently insured individual, provided she has in her care one or more dependent children of the deceased husband, should receive a widow's benefit.

One addition was made to the above—parents' benefits—in the same monthly amounts as are payable to a child. Parents' benefits are payable only if there is no widow or child under 18, and the parent or parents were wholly dependent upon and supported by the wage earner at the time of death.

In connection with these benefits, new terms were introduced in the amended act: "Primary benefit" (the wage earner's benefit); wife's benefit; widow's benefit; widow's current benefit (for young widows with children); and parents' benefit.

### **Insured status**

Under the original plan eligibility for an annuity was conditioned on (1) some covered employment in each of five calendar years and (2) total wages of \$2,000. The decision to start monthly annuities January 1, 1940, when the system was only 3 years old, made it necessary to change this original requirement. The problem was to design appropriate minimum requirements for (a) the aged who would apply for benefits in 1940, (b) those who would retire in subsequent years, and (c) those who would die leaving wives, children, or dependent parents.

The problem was met by adopting a general requirement that, in order to be insured, a wage earner with less than 10 years of coverage must have spent; roughly, at least one-half of his working lifetime after 1936 in covered employment. The calendar quarter was adopted as the unit of measurement; a calendar quarter is considered a "quarter of coverage" if the wage earner received, in that quarter, \$50 or more of wages for covered employment. If he has one-half as many quarters of coverage as the number of calendar quarters elapsing after 1936—or after age 21, if that is later—and before he attains age 65 or dies, or if he has 40 quarters of coverage, he is insured. At least six quarters of coverage are required in all cases.

The only exception to this general rule is that, if a person has earned \$50 in wages for each of 6 of the last 12 quarters before his death, he is insured for survivors' benefits for his widow and children even though he does not meet the general requirement.

### Individual equity and social insurance

In reviewing the development of OASI so far, it becomes apparent that the trend has been away from the concept of ordinary insurance and toward the concept of basic family protection through expanded social insurance.

The 1939 amendments increased the social value of the system by the addition of benefits for wives, children, widows, and parents. Further, the change in benefit formula increased the amount of many retirement benefits which started in the early years of the system when contributions have been very limited. The change in insured status requirements greatly increased the number of aged eligible for retirement benefits in the early years of the system.

The present system departs considerably from the concepts of individual equity in the original plan. The total contribution made by, and benefits paid to, the wage earner are less closely associated than formerly, because of changes in the insured status requirements, the benefit formula, the institution of dependents' benefits, and the lump-sum benefit. While the contributions required are unaffected by marital status or dependents, benefits for an individual and his wife are 50 percent greater than would be paid if he were single. There may be no survivors' benefits, or one, two, or more survivors' benefits totaling as much as twice the primary benefit amount.

Probably the most apparent departure from the original viewpoint as to individual equity is the substitution of a lump-sum death benefit equal in no case to more than 6 months' primary benefits for the original "return of contributions" provision. This change results in a maximum lump sum of less than \$350 regardless of contributions, while under the original provision this amount would have been paid where total wages in covered employment amounted to only \$10,000. As the system matures, \$100,000 of wages in covered employment will not be infrequent, and the resulting settlement would have been \$3,500. It is manifest that the continuance of such payments, with the added system of supplementary benefits, would have substantially increased the financial burden of supporting OASI.

By adjusting all the various benefits, however, the Committee on Ways and Means was able to keep the over-all cost of the amended insurance plan to about the same level as under the 1935 law. The committee pointed this out in its report:

... While the annual costs under the revised plan are greater in the early years of operation, the future annual costs of the benefits when

the system reaches maturity are materially lower than under the present law and the over-all average cost is kept about the same.

The original concepts of equity, however, were not all abandoned. The report of the Committee on Ways and Means on the 1939 amendments, under the heading, "Individual equity preserved," contained the statement that

practically every worker, regardless of his level of wages or of the length of time during which he has contributed, would receive more by way of protection than he could have purchased from a private insurance company at a cost equal to his own contributions.

### **Excluded employment**

Because of one aspect of OASI which has been referred to rather than described, the present system results in some individual inequities, but, far more important, it leaves many in gainful employment entirely unprotected, makes mandatory many arbitrary requirements in OASI, and results in capricious and uncertain protection in an enormous number of cases. That aspect is the exclusion of about two out of each five jobs in the United States from OASI coverage.

If practically everyone in jobs covered by OASI or railroad retirement or public retirement systems, or in jobs not covered by any system, stayed in jobs covered by one system or in noncovered jobs, the present OASI problems would be comparatively simple.

Individuals would be definitely in or out of OASI coverage, and the insured status requirements would not be of very great importance. Average wage, as now computed, would be a reasonably good index as to whether a \$50 or \$250 per month wage loss was suffered on death or retirement. Regardless of limited coverage OASI would fulfil its purpose for those contributing to and protected by it. Almost the sole reason for extending coverage would be the need of specific noncovered groups for protection.

But great numbers of people fail to stay continuously in covered or noncovered jobs. There was some awareness of this as far back as 1939, as indicated by the report of the Committee on Ways and Means on the 1939 OASI amendments. This report states:

Four years ago, when the old-age insurance program was being planned, it was expected that the act as passed would provide old-age security for about half of the gainful workers in the country. It was realized, of course, that many workers who might not be insured under the act at any one time would later obtain protection by shifting into insured occupations. It was generally supposed, however, that the group



so shifting would be small compared with the great mass of workers, who, throughout their working life, would remain continuously either in the insured category or in the uninsured category.

Operation of the act shows that the extent of migration, temporary or permanent, from uninsured to insured employment is far greater than was assumed by the President's Committee on Economic Security in 1935.

Since 1939 the enormous shifting between covered and non-covered employment has become even more apparent. Dramatic shifts, such as the 15,000,000 to the armed forces, tell but part of the story. The fact that almost three-fourths of these had some OASI wage records is of great significance. The quiet movement into and out of OASI coverage is such that some 72,000,000 individuals have wage credits but less than half that number have an insured status. Even when account is taken of the fact that these include young entrants just beginning work, the millions of contributors with no insured status is of great significance.

As was said in the 1939 Report of the Committee on Ways and Means:

In order to reduce the cost of paying benefits to these persons who shift between insured and uninsured employment, there have been added provisions to protect the system in future years.

Put in another way, the average wage provisions will result in very small protection for these part-time contributors and the insured status provisions will entirely exclude many of them.

This is not pointed out by way of criticism of the stringency of these provisions. Stringency is essential if the system is to have limited coverage and a large percentage of occasional rather than permanent contributors. It is pointed out as indicative of the following:

- (1) For large numbers of contributors OASI offers uncertain rather than certain protection—their job opportunities must be followed regardless of OASI coverage, and today's wage record may be lessened in value, and today's insured status may be lost, because of future uncovered employment.

- (2) Future costs, which is another way of saying future benefits to be paid under the system, have, as one major element of uncertainty, that of shifts between covered and uncovered employment.

- (3) Evolving an equitable policy of financing the system is rendered difficult in view of the foregoing considerations.

In the chapters which follow, several aspects of OASI—adequacy of benefits, methods of financing, crediting of military service, and general extension of coverage—are discussed, as well as miscel-

laneous changes. Extension of coverage is by far the most pressing. The present system, so long as it excludes a large part of the jobs, however otherwise improved, must of necessity possess many very serious limitations and offer unpredictable protection to contributors who move in large numbers between jobs that are covered and jobs not covered.

## NATURE AND FUNCTIONS OF OLD-AGE AND SURVIVORS INSURANCE

"Summary of the Nature and Functions of Federal Old-Age and Survivors Insurance Program," *Claims Manual*, Foreword. Bureau of Old-Age and Survivors Insurance, Social Security Administration.

IN PROVIDING a system of old-age and survivors insurance, the Congress recognized that most workers, for a variety of reasons, do not accumulate sufficient resources to care for themselves in old age or for their dependent survivors in the event of their death. The system is based on the conclusion that any system of insurance against these risks must be compulsory to assure that the great bulk of workers will be protected. Old-age and survivors insurance accordingly was adopted as a stable program for assuring a basic security to retired old people and to dependent survivors of deceased workers. It aims to help the family maintain itself as a unit when the usual family income is cut off because of old age or death.

II. Old-Age and survivors insurance differs from individual and voluntary methods of providing security for the aged and survivors because:

A. As compared with methods based on individual savings, it provides for a pooling of risks among a very large group; and

B. As compared with methods based on voluntary insurance, it provides for (1) compulsion, and a consequent inclusion of both good and bad risks, and (2) benefits related to a standard of adequacy, with no strict correspondence between protection and value of contributions paid in the individual case.

III. Old-age and survivors insurance differs in four basic respects from public assistance programs because:

A. It provides for entitlement to benefits without regard

to the other resources of the beneficiary (except in the case of parents' benefits);

B. It makes special provisions for financing benefit payments by means of contributions or taxes levied upon employers and employees;

C. It uses procedures which involve a minimum of scrutiny of personal affairs in establishing eligibility for benefits (except in the case of parents' benefits) and in determining the amount of benefits payable; and

D. It enhances the security of the beneficiary by assuring that funds for paying the benefits provided will be available.

IV. Because the present program is financed by a limited group of contributors, and because the funds are limited in amount, the beneficiary group is confined to persons who:

A. Have a record of taxable earnings which shows that they have had substantial attachment to covered employment; and

B. Have reached a specified age and are no longer substantially engaged in covered employment; or

C. Because of their age and relationship to the beneficiary or the deceased worker were, or may be presumed to have been, dependent upon him for their livelihood.

V. In general, the size of benefits under the old-age and survivors insurance system is limited by the amount of funds available. These funds, in turn, will be limited by the amount of social security taxes contributors are able and willing to pay and such subsidies as the Nation may be willing to provide for this purpose. In the individual case, however, benefit amounts are determined by:

A. The average wage received, in order to relate the size of benefit in some degree to the beneficiary's previous standards of living and to the amount of his contributions; and

B. The length of time spent in covered employment, in order to relate size of benefit to degree and duration of attachment to covered employment and amount of contributions; and

C. The number of eligible dependents, in order to relate the amount of benefit to the presumptive needs of the beneficiary's family group.

## SUMMARY—OLD-AGE AND SURVIVORS INSURANCE RECOMMENDATIONS

*Old-Age and Survivors Insurance, Summary.* Report to the Senate Committee on Finance from the Advisory Council on Social Security, 80th Cong., 2d Sess., Washington: Government Printing Office, 1948.

**O**PPORTUNITY FOR THE INDIVIDUAL to secure protection for himself and his family against the economic hazards of old age and death is essential to the sustained welfare, freedom, and dignity of the American citizen. For some, such protection can be gained through individual savings and other private arrangements. For others, such arrangements are inadequate or too uncertain. Since the interest of the whole Nation is involved, the people, using the Government as the agency for their cooperation, should make sure that all members of the community have at least a basic measure of protection against the major hazards of old age and death.

In the last analysis the security of the individual depends on the success of industry and agriculture in producing an increasing flow of goods and services. However, the very success of the economy in making progress, while creating opportunities, also increases risks. Hence, the more progressive the economy, the greater is the need for protection against economic hazards. This protection should be made available on terms which reinforce the interest of the individual in helping himself. A properly designed social-security system will reinforce the drive of the individual toward greater production and greater efficiency, and will make for an environment conducive to the maximum of economic progress.

### The method of social insurance

The Council favors as the foundation of the social-security system the method of contributory social insurance with benefits related to prior earnings and awarded without a needs test. Differential benefits based on a work record are a reward for productive effort and are consistent with general economic incentives, while the knowledge that benefits will be paid—irrespective of whether the individual is in need—supports and stimulates his drive to add his personal savings to the basic security he has acquired through the

insurance system. Under such a social insurance system, the individual earns a right to a benefit that is related to his contribution to production. This earned right is his best guaranty that he will receive the benefits promised and that they will not be conditioned on his accepting either scrutiny of his personal affairs or restrictions from which others are free

Public-assistance payments from general tax funds to persons who are found to be in need have serious limitations as a way of maintaining family income. Our goal is, so far as possible, to prevent dependency through social insurance and thus greatly reduce the need for assistance. We recognize that, for a decade or two, public assistance will be necessary for many persons whose need could have been met by the insurance program if it had been in effect for a longer time and had covered all persons gainfully employed. The Council looks forward, however, to the time when virtually all persons in the United States will have retirement or survivorship protection under the old-age and survivors insurance program. If insurance benefits are of reasonable amount, public assistance will then be necessary only for those aged persons and survivors with unusual needs and for the few who, for one reason or another, have been unable to earn insurance rights through work. Under such conditions the Federal expenditure for public assistance can be reduced to a small fraction of its present amount.

The Council has studied the existing system of old-age and survivors insurance and unanimously approves its basic principles. The Council, however, finds three major deficiencies in the program:

1. Inadequate coverage—only about three out of every five jobs are covered by the program.

2. Unduly restrictive eligibility requirements for older workers—largely because of these restrictions, only about 20 percent of those aged 65 or over are either insured or receiving benefits under the program.

3. Inadequate benefits—retirement benefits at the end of 1947 averaged \$25 a month for a single person.

The Council's recommendations are designed to remedy these major defects

The Council has agreed unanimously on 20 of its 22 specific recommendations. The two instances of dissenting opinions have been noted in connection with the recommendations themselves, and the reasons for the dissents have been given in appendixes F and G.

### Summary of recommendations

*Recommendations on coverage.* 1. **SELF-EMPLOYMENT.**—Self-employed persons such as business and professional people, farmers, and others who work on their own account should be brought under coverage of the old-age and survivors insurance system. Their contributions should be payable on their net income from self-employment, and their contribution rate should be  $1\frac{1}{2}$  times the rate payable by employees. Persons who earn very low incomes from self-employment should for the present remain excluded.

2. **FARM WORKERS.**—Coverage of the old-age and survivors insurance system should be extended to farm employees.

3. **HOUSEHOLD WORKERS.**—Coverage of the old-age and survivors insurance system should be extended to household workers.

4. **EMPLOYEES OF NONPROFIT INSTITUTIONS.**—Employment for nonprofit institutions now excluded from coverage under the old-age and survivors insurance program should be brought under the program, except that clergymen and members of religious orders should continue to be excluded.

5. **FEDERAL CIVILIAN EMPLOYEES.**—Old-age and survivors insurance coverage should be extended immediately to the employees of the Federal Government and its instrumentalities who are now excluded from the civil-service retirement system. As a temporary measure designed to give protection to the short-term Government worker, the wage credits of all those who die or leave Federal employment with less than 5 years' service should be transferred to old-age and survivors insurance. The Congress should direct the Social Security Administration and the agencies administering the various Federal retirement programs to develop a permanent plan for extending old-age and survivors insurance to all Federal civilian employees, whereby the benefits and contributions of the Federal retirement systems would supplement the protection of old-age and survivors insurance and provide combined benefits at least equal to those now payable under the special retirement systems.

6. **RAILROAD EMPLOYEES.**—The Congress should direct the Social Security Administration and the Railroad Retirement Board to undertake a study to determine the most practicable and equitable method of making the railroad retirement system supplementary to the basic old-age and survivors insurance program. Benefits and contributions of the railroad retirement system should be adjusted to supplement the basic protection afforded by old-age and survivors insurance, so that the combined protection of the two programs would at least equal that under the Railroad Retirement Act.

7. **MEMBERS OF THE ARMED FORCES.**—Old-age and survivors in-

surance coverage should be extended to members of the armed forces, including those stationed outside the United States.

8. **EMPLOYEES OF STATE AND LOCAL GOVERNMENTS.**—The Federal Government should enter into voluntary agreements with the States for the extension of old-age and survivors insurance to the employees of State and local governments, except that employees engaged in proprietary activities should be covered compulsorily.

9. **SOCIAL SECURITY IN ISLAND POSSESSIONS.**—A commission should be established to determine the kind of social security protection appropriate to the possessions of the United States.

10. **INCLUSION OF TIPS AS WAGES.**—The definition of wages as contained in section 209 (a) of the Social Security Act, as amended, and section 1426 (a) of subchapter A of chapter 9 of the Internal Revenue Code should be amended to specify that such wages shall include all tips or gratuities customarily received by an employee from a customer of an employer.

*Recommendations on eligibility.* 11. **INSURED STATUS.**—To permit a larger proportion of older workers, particularly those newly covered, to qualify for benefits, the requirements for fully insured status should be 1 quarter of coverage for each 2 calendar quarters elapsing after 1948 or after the quarter in which the individual attains the age of 21, whichever is later, and before the quarter in which he attains the age of 65 (60 for women) or dies. Quarters of coverage earned at any time after 1936 should count toward meeting this requirement. A minimum of 6 quarters of coverage should be required and a worker should be fully and permanently insured if he has 40 quarters of coverage. In cases of death before January 1, 1949, the requirement should continue to be 1 quarter of coverage for each 2 calendar quarters elapsing after 1936 or after the quarter in which the age of 21 was attained, whichever is later, and before the quarter in which the individual attained the age of 65 or died.

*Recommendations on benefits.* 12. **MAXIMUM BASE FOR CONTRIBUTIONS AND BENEFIT.**—To take into account increased wage levels and costs of living, the upper limit on earnings subject to contributions and credited for benefits should be raised from \$3,000 to \$4,200. The maximum average monthly wage used in the calculation of benefits should be increased from \$250 to \$350.

13. **AVERAGE MONTHLY WAGE.**—The average monthly wage should be computed as under the present law, except that any worker who has had wage credits of \$50 or more in each of 6 or more quarters after 1948 should have his average wage based either on the wages and elapsed time counted as under the present law or on wages and elapsed time after 1948, whichever gives the higher result.

14. **BENEFIT FORMULA.**—To provide adequate benefits immediately and to remove the present penalty imposed on workers who lack a lifetime of coverage under old-age and survivors insurance, the primary insurance benefit should be 50 percent of the first \$75 of the average monthly wage plus 15 percent of the remainder up to \$275. Present beneficiaries, as well as those who become entitled in the future, should receive benefits computed according to this new formula for all months after the effective date of the amendments.

15. **INCREASED SURVIVOR PROTECTION.**—To increase the protection for a worker's dependents, survivor benefits for a family should be at the rate of three-fourths of the primary insurance benefit for one child and one-half for each additional child, rather than one-half for all children as at present. The parent's benefit should also be increased from one-half to three-fourths. Widows' benefits should remain at three-fourths of the primary insurance benefit.

16. **DEPENDENTS OF INSURED WOMEN.**—To equalize the protection given to the dependents of women and men, benefits should be payable to the young children of any currently insured woman upon her death or eligibility for primary insurance benefits. Benefits should be payable also (a) to the aged, dependent husband of a primary beneficiary who, in addition to being fully insured, was currently insured at the time she became eligible for primary benefits, and (b) to the aged, dependent widower of a woman who was fully and currently insured at the time of her death.

17. **MAXIMUM BENEFITS.**—To increase the family benefits, the maximum benefit amount payable on the wage record of an insured individual should be three times the primary insurance benefit amount or 80 percent of the individual's average monthly wage, whichever is less, except that this limitation should not operate to reduce the total family benefits below \$40 a month.

18. **MINIMUM BENEFIT.**—The minimum primary insurance benefit payable should be raised to \$20.

19. **RETIREMENT TEST.**—No retirement test (work clause) should be imposed on persons aged 70 or over. At lower ages, however, the benefits to which a beneficiary and his dependents are entitled for any month should be reduced by the amount in excess of \$35 which he earns from covered employment in that month. Benefits should be suspended for any month in which such earnings exceed \$35 but, each quarter, beneficiaries should receive the amount by which the suspended benefits exceeded earnings above the exemption.

20. **QUALIFYING AGE FOR WOMEN.**—The minimum age at which women may qualify for old-age benefits (primary, wife's, widow's, parent's) should be reduced to 60 years.



21. **LUMP-SUM BENEFITS.**—To help meet the special expenses of illness and death, a lump-sum benefit should be payable at the death of every insured worker even though monthly survivor benefits are payable. The maximum payment should be four times the primary insurance benefit rather than six times as at present.

*Recommendations on financing.* 22. **CONTRIBUTION SCHEDULE AND GOVERNMENT PARTICIPATION.**—The contribution rate should be increased to  $1\frac{1}{2}$  percent for employers and  $1\frac{1}{2}$  percent for employees at the same time that benefits are liberalized and coverage is extended. The next step-up in the contribution rate, to 2 percent on employer and 2 percent on employee, should be postponed until the  $1\frac{1}{2}$  percent rate plus interest on the investments of the trust fund is insufficient to meet current benefit outlays and administrative costs. There are compelling reasons for an eventual Government contribution to the system, but the Council feels that it is unrealistic to decide now on the exact timing or proportion of that contribution. When the rate of 2 percent on employers and 2 percent on employees plus interest on the investments of the trust fund is insufficient to meet current outlays, the advisability of an immediate Government contribution should be considered.

*Technical and minor amendments.* In addition to these major recommendations, several minor and technical amendments are needed to correct certain inequities and administrative problems resulting from the present provisions. The Council has preferred in the main to leave recommendations on such questions to the Social Security Administration. The Council would like to call attention, however, to the need for additional adjustments to protect the rights of men who served in World War II. Our general recommendations, if put into effect, would remove most of the inequities which these veterans would otherwise suffer; but, in addition, section 210 of the present act should be temporarily extended to protect veterans during the transitional period until our general recommendations become fully operative. The Council also wishes to call attention to the lack of coverage for American citizens employed outside the United States by American firms.

### **Interdependence of recommendations**

The Council stresses the fact that its recommendations are a consistent whole and that many of the 22 specific proposals are interdependent. If coverage is not broadly extended, for example, the Council would propose very different modifications in the present provisions for insured status, benefit structure, method of determining the average monthly wage, and financing. Accordingly, the

Council strongly urges that its recommendations be considered as a whole.

### Plan of the report

The Council's proposed remedies for the three major deficiencies of the present program—inadequate coverage, unduly restrictive eligibility requirements, and inadequate benefits—are outlined in this section. The test of retirement, financing, and the importance of a broad informational program are also discussed. The section which follows treats the 22 specific recommendations in more detail. Appendixes A and B are concerned with special aspects of costs and financing.

### Goal of universal coverage

The basic protection afforded by the contributory social insurance system under the Social Security Act should be available to all who are dependent on income from work. The character of one's occupation should not force one to rely for basic protection on public assistance rather than insurance.

Earlier decisions to exclude the self-employed, workers in agriculture, and workers in domestic service from coverage of the insurance system were based on expectation there would be administrative difficulties in collecting contributions and obtaining wage reports for these groups. Other groups such as railroad workers, Government employees, and employees of religious, charitable, and educational institutions were excluded for various reasons—because some of the workers were protected under existing retirement plans, because of the constitutional barrier to the levy of a Federal tax on State and local governments, or because of objections to taxing traditionally tax-exempt nonprofit organizations.

The Council believes that none of the reasons for the original exclusions justifies continued denial of basic social insurance protection to these groups. The administrative difficulties which may arise from including the self-employed and workers in agriculture and domestic service seem far less formidable today than they did 10 years ago when the social insurance system was new and in the early stages of developing its administrative organization.

Ten years' experience with incomplete coverage has revealed the many inequities and anomalies which arise when workers move between covered and noncovered employments. In many cases these workers pay contributions but never receive benefits, and in others they may become entitled to benefits which, though small, are worth

far more in relation to their contributions than are the benefits of workers covered regularly.

The present incomplete system of social insurance affords uneven protection in different parts of the United States. Coverage restrictions cause relatively fewer people to receive old-age and survivors insurance benefits in agricultural States than in States where industry predominates. Conversely, the number of persons receiving old-age assistance per 1,000 aged population is considerably larger in the agricultural States (see appendix D). As a consequence, the taxpayers of the agricultural States must meet, from general revenues, a disproportionate share of the costs of old-age security and aid to families of workers who die prematurely. Since the per capita income of most predominantly agricultural States is far below that of the largely industrial and commercial States, the former have relatively more people in need of assistance and smaller revenues from which to meet this need.

Employers as well as employees suffer from the lack of protection for the noncovered occupations, because employers offering noncovered jobs cannot furnish as attractive labor conditions as those of their competitors in the labor market who are in covered industries. Some workers who have been protected by social insurance during the war have been unwilling to return to such noncovered jobs as agriculture or domestic work or work in nonprofit organizations, where they will lose that protection.

An incidental but important result of extension of coverage will be a reduction in the percentage of pay rolls required to meet the costs of old-age and survivors insurance. Extension of coverage would increase the revenue of the program more than it increases benefit payments. The net saving would be roughly one-half percent to 1 percent of pay roll under the present provisions. Under a program of liberalized benefits such as we recommend, cost would, of course, be increased, but under such a program the net savings as a result of the extension of coverage would also be increased—possibly to as much as 2 percent of pay roll. The saving occurs in the main because under the present limited coverage system, those who move in and out of covered employment have low average monthly wages in covered employment and receive the advantage of a formula weighted in favor of those with low average wages. Under extended coverage such persons will have to pay contributions on all the wages which they earn, and although their benefits will be increased, they will be increased at the lower rate of the formula (the present formula pays 40 percent of the first \$50 of average monthly

wage, but only 10 percent above) and the income to the fund will increase more than the claims against it.

There are no immediate obstacles to extension of coverage to the self-employed, farm employees, workers in domestic service, employees of nonprofit institutions, the armed forces, and employees of State and local governments. Accordingly, the Council recommends that coverage be extended to these groups without delay. A similar recommendation applies to the Federal civilian employees who are not under the civil-service retirement system. Extension of coverage to Federal civilian employees who are subject to the Federal retirement plan and to the employees of the railroads, however, requires solution of various technical problems before legislation is enacted. The civil-service retirement system and the railroad retirement system will have to be modified to take into account the protection which would be afforded by coverage under old-age and survivors insurance. The Council believes that the best way to work out these problems is through joint studies by the Social Security Administration and the Civil Service Commission in the case of Federal civilian employees, and the Social Security Administration and the Railroad Retirement Board in the case of the railroad employees. The Council has recommended that the necessary studies be required by Congress. Extension of coverage to types of employment with existing staff retirement systems or compulsory insurance protection can and should be accomplished without any loss of benefits to the workers regularly covered by these systems. This result can be achieved by making their present special pension plans supplementary to old-age and survivors insurance.

Since the present civil-service retirement plan and railroad retirement system now give more protection to those regularly covered than would old-age and survivors insurance, the question may be asked: "Why extend old-age and survivors insurance to Federal civil-service employees or to railroad workers?" This question is discussed under the specific recommendations in the Council's report. In essence, the answer is that some workers, particularly short-service workers and those who move in and out of Federal or railroad employment, are inadequately protected under present arrangements. An extension of coverage would help these workers without reducing the combined protection available for long-service workers. In addition, if the Council's recommendation for an eventual Government contribution were followed, an extension of coverage would mean that these employers and employees would pay less for that protection.

### Limitations of voluntary methods

Voluntary coverage under old-age and survivors insurance has been suggested. In the opinion of the Council, voluntary coverage is defensible only where the Federal Government cannot under the Constitution apply compulsion. Since it is apparently unconstitutional for the Federal Government to tax the States and localities, we believe it necessary to allow these units to enter into voluntary compacts for the coverage of their employees. We are convinced that to offer voluntary coverage in any area where it can possibly be avoided would be a grave mistake.

Since the chief objective of the old-age and survivors insurance program is basic family protection adequate for the needs that can be presumed to exist in various family situations, the program contains eligibility and benefit provisions which, especially in the early years of operation and in the case of workers with large families, allow for the payment of benefits considerably in excess of the value of contributions. These provisions make the program vulnerable if voluntary participation by individuals is allowed. The "adverse selection" which would occur would have serious effects on the program's solvency.

Voluntary participation by employing organizations would have less serious but still highly undesirable effects. The organizations most likely to participate in an elective program would be those whose employees as a group would stand to gain disproportionately large benefits in return for their contributions, such as organizations largely made up of persons nearing retirement age or men with large families. Furthermore, many employers in the groups now excluded employ only a few persons. The smaller the staff, the greater the probabilities that the distribution of employees by age, sex, and family dependents will differ from the distribution which obtains among the employee population as a whole and therefore the greater are the possibilities of adverse selection. Under a voluntary system, the employers who pay the lowest wages and whose employees consequently may be in greatest need of protection would be least likely to elect coverage.

The history of voluntary social insurance indicates that those who most need the protection seldom participate. Usually the persons who choose to participate are those who can expect a large return for their contributions and who can easily spare the money. We see no justification whatever in offering insurance protection at extreme bargain rates to a select group, consisting primarily of those who recognize the opportunity for a bargain and are well able to take advantage of it, and in requiring the covered group as a

whole to bear the cost of the difference between what the select group pays and what it receives.

### **More liberal eligibility requirements for older workers**

Old-age and survivors insurance now offers basic retirement protection to the majority of younger workers, but many of those in the middle and higher-age groups will not be eligible for benefits when they retire. The worker who is now young and has a whole working lifetime of some 40 years ahead has ample opportunity to build up credits toward meeting the present eligibility requirements. Older workers, however, have only relatively limited opportunity to build up such credits, and many fail to qualify who would have done so had the program come into existence when they were young. The Council believes that, in establishing eligibility requirements, special allowance should be made for those who were already at the higher ages when the system began. Liberalization of the present eligibility requirements is made even more necessary if coverage is extended. As a group, newly covered workers will have had no opportunity to build up credits in the past and, unless some change is made in the requirements, very few of the older workers in the newly covered groups would ever be eligible for retirement benefits.

If the effectiveness of the social-insurance method of meeting income loss in old age is not to be unduly postponed, the period of covered employment required for insured status will have to be substantially reduced. It should not, of course, be reduced so far as to endanger the character of the benefit as an earned right based on contributions and work records. We propose as a method of reducing the requirements for insured status a "new start" which will require the same qualifying period for an older worker now as was required for a person who was the same age when the system began operation. As pointed out in the report which follows, this recommendation is contingent on a broad extension of coverage.

### **More adequate benefits now**

The benefit amounts now being paid under the old-age and survivors insurance program are inadequate for the security of most of the beneficiaries. At the end of 1946 the average benefit for a retired male worker alone was \$24.90 a month, the average benefit for a retired man and wife was \$39, and the average family benefit for a widow and two children was \$48.20. If the old-age and survivors insurance program is to do an effective job of insuring gain-

fully occupied individuals and their families against dependency in the old age or on the death of a family breadwinner, the level of benefits must be raised.

Under the present program, benefits are computed as a basic amount which is increased by 1 percent for each year in which the wage earner received \$200 or more in wages. Full-rate benefits, under this system of computation, will not be paid until after 1980, when those now young will be able to retire on benefits some 40 percent larger than the basic amounts payable at the beginning of the system's operation.

The Council believes that the primary benefit should be 50 percent of the first \$75 of the average monthly wage and 15 percent of the remainder up to the maximum average monthly wage (\$350 a month) that can be counted toward benefits. Under this formula, the full rate of benefits contemplated for the future would be paid at once and the 1-percent increment would be eliminated. Without the increment, which commits the system to an automatically increasing level of benefits, a higher level of benefits can be paid immediately than would be warranted under a formula such as that in the present law.

Our proposed benefits formula was chosen because it combines the advantages of relatively high benefits in the low-wage brackets with a considerable spread of benefit amounts for the middle- and higher-wage levels.

In addition to the revision in the benefit formula, several other changes we recommend would have the effect of making benefits more adequate. Extension of coverage will achieve this result for those who move in and out of the unemployments now covered, since their future benefits will be based on all their earnings up to the maximum base rather than only on those earned in certain types of employment. By reducing the age of eligibility for women from 65 to 60, benefits payable to a family consisting of a primary beneficiary and his wife aged 60 to 64 would be increased immediately by 50 percent. By raising the base for computation of benefits from the present \$3,000 to \$4,200, the benefits for workers at the higher-wage levels will be increased somewhat in the near future and to a greater extent as additional years lapse—an increase for which in a mature program these workers will have paid by additional contributions. An increase in benefits would also result from our recommendation for basing benefits solely on wages earned after 1948 if such wages result in a higher average monthly wage than that derived from all wages earned under the program. After this "new start" provision becomes effective, the over-all effect of our recommendations would be to increase the benefit currently awarded

a retired male worker alone from the present average of about \$25 a month to an average of about \$55. An average benefit for man and wife would be about \$85 a month, and the average family benefit for a widow and two children would be about \$110. These amounts are higher than those which would be paid under the proposed formula before the new start becomes effective.

### **Test of retirement**

The rapidly increasing number of aged in the population has made the Council conscious of the need for modification of the present retirement test, which prevents the payment of benefits to all who earn \$15 a month or more in covered employment. Since the time of the passage of the original act, the number of persons aged 65 and over has risen from somewhat more than 7.8 million to nearly 11 million. In another 25 years there may be nearly 20 million aged persons in the United States. In these circumstances it is particularly important that the aged make the contribution to production of which they are capable.

Most aged persons, it is true, do not retire voluntarily. Generally speaking, those who retire do so at the will of the employer or because they are unable to work. The existence of a work clause in old-age and survivors insurance probably has little effect on this basic fact, since few people are likely to give up full-time jobs because of the availability of old-age and survivors insurance benefits. The present very restrictive work clause, however, probably discourages some of those who have retired from their regular jobs from making such contribution to production as they are capable of making. We have therefore suggested liberalizations in the retirement test which will remove some of the barriers to gainful activity on the part of beneficiaries.

The Council believes that further study of the broad problem of the aged in our society is desirable. We recommended that the Federal Government establish a commission to undertake such a study. We have in mind particularly consideration of employment opportunities for the aged, their adjustment to retirement, the availability of recreational facilities, housing for the aged, care for the chronically ill, and other services. The maintenance of income for those who have retired is only part of the provision of security for the aged.

### **Financing**

A primary consideration in evaluating proposals for social security benefits must be the impact of their present and future costs



on the Nation's economy. The recommendations of the Council for changes in benefits and in coverage have been made only after careful consideration of the probable costs and the method for financing them. The Council, however, would be less than frank if it failed to stress the difficulties of estimating the ultimate cost of the system. Appendix B of this report deals with the problem of estimating costs and discusses in some detail the nature and purpose of long-range cost estimates.

Exactly what future costs will be will depend on a number of factors that are more or less uncertain—the proportion of men and women in covered employment who will reach the age of retirement, the proportion of persons reaching the age of retirement who will have fully insured status, the proportion of persons eligible for benefits who will elect to work rather than retire, and the length of time retired persons will draw benefits. Similar questions arise in connection with survivorship benefits.

In setting the contribution rates for the system, the essential question is probably not "What percentage of pay roll would be required at some distant time to pay benefits equal to the money amount provided in the Council's recommendations?" Rather it is "What percentage of pay roll will be required to pay benefits representing about the same proportion of future monthly earnings that the benefits recommended by the Council represent of present monthly earnings?" If past trends continue, monthly wage earnings several decades hence will be considerably larger than those of today, and benefits will probably be revised to take these increased wages into account. The long-range estimates presented by the Council, however, disregard the possibility of increases in wage levels and state the costs of the proposed benefits as a percentage of the pay rolls based on continuation of the wage levels of the last few years. If increasing wage levels had been assumed, the costs of these benefits as a percentage of pay rolls would be lower than those presented. Use of the level-wage assumption, therefore, has the effect of allowing for liberalizations of benefits to keep pace with any increases in wages and pay rolls which may occur. If wages continue to rise and such liberalizations are not made, these estimates overstate the cost as a percentage of pay roll and a contribution rate based on them would be too high.

The percentage-of-pay-roll figures are the most important measure of the financial effort required to support the system and are the basis for determining ultimate contribution rates. Dollar figures taken alone are misleading. For example, extending coverage to groups now excluded would greatly increase the dollar costs because more people would become eligible for benefits, but as indi-

cated earlier it will actually decrease the cost as a percentage of pay roll. As a result of coverage extension the income of the insurance system will be increased more than the outgo. In appendix B, however, we have included both the dollar figures and the percentage-of-pay-roll figures.

As indicated in appendix B, the percentage of pay roll required to maintain the relationship between benefits and monthly earnings recommended by the Council would average somewhere between 4.9 percent and 7.3 percent of covered pay roll under a system of nearly universal coverage. The cost in the early years of the system is much lower than it will be when those attaining age 65 have had a working lifetime under the program in which to gain insured status. By that time, the number of persons over age 65 will be much larger than at present and a much larger proportion of the aged population will be eligible for benefits. Our estimates show that the cost of the expanded plan in 1955 will probably be between 2.4 percent and 3.1 percent of pay rolls. In the year 2000 a program which maintains the same relationship between benefits and monthly earnings as the program now being recommended by the Council might cost from 5.9 percent to 9.7 percent of pay rolls. These costs are well within the range of costs expected for the program adopted in 1935 and for the amended program of 1939. Our recommendations therefore do not make necessary any increase in contribution rates over those contemplated from the beginning.

Appendix B also contains an estimate of what the Council's proposals would cost now as a percentage of covered pay rolls under a nearly universal system, had the Council's recommendations been in effect over the last 100 years. These estimates are included to give a sense of what these recommendations would mean if they were now fully operative. Using the estimate of the actual wages paid over the last 100 years, such a system would cost this year from 2.4 percent to 3.0 percent of pay rolls. If it were assumed that the benefits being paid now under such a system were based on current wage levels rather than past wages, such a system would cost this year from 4.1 percent to 4.9 percent. These figures are lower than the estimates for the future, largely because the number of old people will be much greater in the future than now.

*Contribution rate.* The Council believes that, at the time benefits are liberalized, the contribution rate should be raised to 1½ percent for both employees and employers. The present 1-percent rate has remained unchanged for more than 10 years. The longer it remains unchanged, the greater the danger that the public will fail to appreciate that in the long run there must be a close relationship between contributions and benefits. It is also desirable

to achieve the increase in contribution rates to the level which will eventually be necessary by gradual and more or less evenly spaced changes. Even at the present level of benefits, contributors pay but a fraction of the actuarial value of the benefits to which they are entitled. If benefits and eligibility requirements are changed as the Council recommends, current contributions will bear an even smaller ratio to the actuarial value of benefits. For these reasons, the Council believes that the contribution rate should be increased when benefits are liberalized.

An incidental effect of the recommendation just outlined is that the trust fund will continue to increase for a number of years. Changes in the size of the trust fund, whether increases or decreases, may present certain problems of fiscal policy, the character of which will depend on prevailing economic conditions. The Council does not believe that the short-range increases in the trust fund which will result from its recommendations will confront the Government with fiscal problems that cannot be readily handled. We favor, however, keeping this excess of income over outgo as low as is consistent with public understanding that in the long run there must be a close relationship between benefits and contributions. We believe that the second step-up in the tax rate, to 2 percent on employer and 2 percent on employee, should not take place until actually needed to cover current disbursements.

*Government participation.* The Council believes that old-age and survivors insurance should be planned on the assumption that general taxation will eventually share more or less equally with employer and employee contributions in financing future benefit outlays and administrative costs. Under our recommendations, the full rate of benefits will be paid to those who retire during the first two or three decades of operation even though they pay only a fraction of the cost of their benefits. In a social insurance system, it would be inequitable to ask either employers or employees to finance the entire cost of liabilities arising primarily because the act had not been passed earlier than it was. Hence, it is desirable for the Federal Government, as sponsor of the program, to assume at least part of these accrued liabilities based on the prior service of early retirants. A Government contribution would be a recognition of the interest of the Nation as a whole in the welfare of the aged and of widows and children. Such a contribution is particularly appropriate in view of the relief to the general taxpayer which should result from the substitution of social insurance for part of public assistance.

The Council has suggested that the introduction of the Government contribution be considered when the 2 percent rate for em-

ployer and employee plus interest on the trust fund is insufficient to meet current costs. If the Government contribution is delayed beyond the point at which costs begin to exceed 4 percent, the result might well be that the contribution would never be as much as one-third of eventual benefit outlays, because under our low-cost estimates, the annual cost of the benefits never exceeds 6 percent of pay roll even though under the high estimates the cost reaches 9.7 percent.

*Purchasing power of benefits.* For millions of persons the social security system represents a guaranty of future security. If that guaranty is to be valid and meaningful, the purchasing power of benefits must not be destroyed by large increases in price levels. A special obligation rests on the Government and all groups in the community with an interest in the social-insurance system and in the security it offers to make sure that monetary policies, price policies, and wage policies contribute to the objective of preventing such a large rise in the price level. If the people of the United States are unable to prevent steep increases in price levels, benefits will have to be readjusted to preserve their purchasing power for unless the purchasing power of the benefits is preserved, the security guaranteed by the social-insurance plan will be illusory.

### **Importance of a broad informational program**

The Council recommends a broad informational program to give publicity to any new amendments passed by the Congress. Under old-age and survivors insurance, contributors have established an equity in the trust fund. The Government as trustee has an obligation to inform the beneficiaries of their rights. The reporting and tax provisions as well as the benefit provisions will affect millions heretofore outside the scope of the law; unless they are fully informed of the duties they must now assume, records will be incomplete and the resulting confusion may tend to defeat the purpose of the extended protection. No social security program can be effective unless those who are entitled to participate know their rights and obligations.

## RECOMMENDATIONS ON COVERAGE AND ELIGIBILITY

Recommendations on Coverage and Eligibility for Benefits. Report to the Senate Committee on Finance from the Advisory Council on Social Security, 80th Cong, 2d Sess. Washington: Government Printing Office, 1948.

1. *Self-employed persons such as business and professional people, farmers and others who work on their own account should be brought under coverage of the old-age and survivors insurance system. Their contributions should be payable on their net income from self-employment, and their contribution rate should be  $1\frac{1}{2}$  times the rate payable by employees. Persons who earn very low incomes from self-employment should for the present remain excluded.*

THE SELF-EMPLOYED—business and professional people, farmers, and others who work on their own account—represent more than one-third of all persons in jobs now excluded from coverage and constitute by far the largest single group denied the protection of the system. They include about 6 million persons in urban self-employment and perhaps 5 million farmers, though the number of individuals actively engaged in farm operation as a business is probably only about 3.5 million.

The desirability of extending coverage to the self-employed has long been generally acknowledged. Their need for the basic protection afforded by old-age and survivors insurance is as great as that of the groups now covered and, like persons in all other excluded groups, they move back and forth between covered and noncovered work. The Advisory Council of 1937-38 recommended extension of coverage to the self-employed as soon as administratively feasible plans could be worked out; since then, the issue has been largely one of administration.

The fact that almost all full-time and a large proportion of part-time self-employed persons have for the last few years been required to file income-tax returns has radically changed the outlook for extending coverage to this group. It has been demonstrated that income reports can be obtained from the great majority of the self-employed, and it is now apparent that the coverage of the insurance system can be extended to them by tying in a self-reporting system

for social insurance with the income tax. Certain items now reported for income-tax purposes can be used as the contribution base for old-age and survivors insurance and entered on a social-security report form. In the main, these items are net income from a business, profession, or farm (schedule C of the Federal income-tax return), and from partnerships, syndicates, etc. (schedule E).

If the contribution base for the self-employed is to be strictly comparable to that for the groups now covered, only the net income from self-employment attributable to personal services should be taxable. We believe, however, that this refinement would be administratively impossible. The contribution base for the self-employed can readily exclude certain types of income which are obviously not work-connected, such as dividends, interest, annuities, capital gains and losses, and some types such as rental income from real property that largely arise from capital investment. Each dollar of income from typical self-employment such as retail trade or a profession or farming, however, as income derived partly from personal services and partly from capital investment, combined in such a way as to make any separation virtually impossible.

For many persons with relatively high income from a business, profession, or farming, the failure to make the distinction between income from personal services and income from investment will be of little significance, since that part of their income (the first \$4,200 a year of net income) on which they will pay contributions may be presumed to be derived from personal services. Self-employed persons with lower incomes who yet have substantial capital invested in their business, however, will get higher benefits and pay more in contributions than they would if it were possible to tax only their income from personal services.

One of the reasons for our recommending that self-employed persons contribute at a rate of  $1\frac{1}{2}$  times the employee-contribution rate rather than at the combined rate for employer and employee is the fact that some of them will be paying on income from capital investment as well as on income from personal services. Moreover, if they were required to pay twice the normal employee rate, the high-income self-employed persons who contributed over a long period might be "over-charged" for their coverage in relation to what they would have to pay for comparable protection under private insurance. The later retirement age which characterizes the self-employed will lengthen their contribution period, reduce the number of years they receive retirement benefits, and result in savings to the trust fund. As a reasonable compromise, we recommend that the self-employed person—who is at once his own employer and employee—should contribute at  $1\frac{1}{2}$  times the employee rate.

The Council believes that, at the outset, extension of coverage to the self-employed should be limited to those at income levels to which the requirement for filing Federal income-tax returns has applied, i.e., those with gross annual incomes of at least \$500. We therefore recommend exclusion of those whose self-employment yields gross income of less than \$500 or a net income of less than \$200. Setting a minimum net income for coverage in addition to a minimum gross income will prevent a large volume of returns from persons who earn so little from self-employment that they could not qualify for benefits. This exclusion will avoid reporting with respect to inconsequential amounts of income and will avoid collecting contributions at an expense out of all proportions to the benefits afforded.

We advocate limiting coverage to those who have been required to file income-tax returns in the past. The coverage of the old-age and survivors insurance system should not vary with changes in the income-tax exemption. The Treasury Department should require returns for social-security purposes from anyone who has a gross income of \$500 or more and net income of at least \$200, regardless of changes in income-tax requirements.

The application of a retirement test for the self-employed presents special and difficult problems. This is one of the reasons for the recommendation in proposal 19 that benefits be paid at age 70 or over without reduction for earnings. Since many self-employed persons remain at work until at or near age 70, the application of the retirement test only to beneficiaries under that age will avoid the need to make many of the more difficult administrative determinations connected with such a test. The work clause for those between 65 and 70 will, of course, have to be modified for the self-employed in view of the fact that their income will be reported annually.

*2. Coverage of the old-age survivors insurance system should be extended to farm employees*

During the course of a year about 3.5 million agricultural workers are excluded from old-age and survivors insurance. The social desirability of extending coverage to these workers has long been a matter of common agreement, and it is now evident that administrative considerations no longer constitute an important barrier to their receiving the protection of the system. The Treasury Department and the Social Security Administration have developed plans which the Council believes are workable, although reporting problems may be difficult in the early years.

The Treasury Department in cooperation with the Social Se-

curity Administration should be left free to select the method of collecting contributions for these workers. Although we believe that either the stamp system or some modification of the present reporting plan would be practicable, we believe that it would be a mistake at this point to stipulate the exact method to be used and thus preclude further study by the agencies concerned.

Wages credited toward benefits should include wages-in-kind, when substantial. Without credits for wages-in-kind, many farm workers would be ineligible for benefits, and the benefit amounts for which many others could qualify would be very small. Although evaluating wages-in-kind may prove difficult at the outset, the same type of problem is now being met satisfactorily for groups covered under the present system. Wage credits of workers in restaurants, hotels, and cafeterias and of maritime workers, building superintendents, and resident managers, among others, already include wages-in-kind. Minimum presumptive schedules setting the value of the more important types of wages-in-kind, such as regular meals and lodging, might be of assistance to farm workers and their employers in reporting wages. Inconsequential facilities or privileges, which might create a reporting nuisance out of all proportion to their significance, should be excluded.

*3. Coverage of the old-age and survivors insurance system should be extended to household workers.*

The 2.5 million persons who work in household employment during the course of a year should be covered under old-age and survivors insurance. They need social insurance protection fully as much as does any other group, and the Council believes that it is now administratively feasible to extend protection to them.

Though there was ample reason at the outset to postpone undertaking the special problems of including household workers in the system, the administrative agencies are now in a position to deal adequately with these problems. A strong argument for the delay was the difficulty anticipated in collecting wage reports and contributions from the employers of domestic workers. Since employers may be expected to outnumber employees in this area, the relatively high costs and administrative problems generally associated with obtaining reports from small employers will be heavily concentrated here. The Social Security Administration and the Treasury Department, however, have now had 11 years of experience in collecting wage reports and contributions from small employers, and the administrative machinery of the insurance system functions satisfactorily for these small establishments. In the first quarter of 1946, for example, employers with only one employee represented



one-fourth of the total number who reported for purposes of old-age and survivors insurance.

In the early years of coverage for household workers, some difficulties may arise from delinquency in the payment of contributions and from incomplete understanding of the program by household workers and their employers. We believe, however, that these problems can be solved fully as effectively and quickly as were the very considerable problems met when the present program was started.

As we indicated with respect to farm workers, we believe that, for household workers, substantial wages-in-kind in the form of meals and lodging should be reported and recorded as wage credits, but that wages-in-kind of relatively small value should be disregarded. As in the case of farm workers, also, the administrative agencies concerned should be left free to decide on the methods to be used for collecting wage information and contributions.

4. *Employment for nonprofit institutions now excluded from coverage under the old-age and survivors insurance program should be brought under the program, except that clergymen and members of religious orders should continue to be excluded.\**

Approximately a million employees of nonprofit organizations are at present denied the protection of the old-age and survivors insurance program. Almost half are in the service of charitable organizations, one-fourth are in educational institutions, and another fourth work in religious institutions. These employees include not only professional persons such as nurses, teachers, and clergymen, but also office workers, laboratory assistants, janitors, and maids.

The extension of coverage to employees of nonprofit organizations presents no administrative difficulties and the need for old-age and survivors insurance protection of these workers and their families is as great as for workers who are now covered. Especially when they work in nonprofessional jobs, the tasks and earnings of employees of nonprofit organizations, as well as the extent to which they move from one job to another, are equally characteristic of industrial and commercial workers.

Probably not more than two-fifths of the employees of nonprofit organizations are covered by any formal retirement plan and very few of such plans extend protection to survivors. Moreover, in general, the right to pensions from the private plans is contingent on long periods of service, hence, persons who transfer from one nonprofit organization to another or between nonprofit and other organizations, may forfeit all retirement rights.

\* Two members of the Council favor extension of coverage to the nonprofit group on an elective basis, for reasons given in appendix E.

Although many clergymen are covered by retirement programs, in some denominations the lower-paid clergymen do not participate, while benefits for those who do are often inadequate; more serious, however, is the fact that few lay employees of churches have any assurance of economic security in their old age through staff pension plans. Not more than half the college teachers of the Nation actually participate in retirement systems, and in private colleges most such systems do not cover nonteaching personnel. Coverage under old-age and survivors insurance can and should be effected for teachers, employees of charitable and scientific organizations, and lay employees of churches, without impairing any of the rights which individuals may have built up under private systems.

Leaders of religious, charitable, scientific, and educational organizations apparently agree on the desirability of providing protection under old-age and survivors insurance for employees of these institutions. Some, however, have feared that an extension of the compulsory insurance system to employment for religious institutions might impair religious freedom by undermining the principle of the separation of church and state. Others evidently feel that a tax on employers under the Federal Insurance Contributions Act would tend to weaken the traditional tax-exempt status of such institutions.

The members of the Council are unanimous in believing that freedom of religion should be protected, but we are convinced that a tax on employment—a function which employers in the nonprofit area have in common with all others—for the special purpose of giving equal social insurance protection to all employees would in no way imply or lead to Government control over the performance of the religious function. To make it absolutely clear that the legislation is not concerned with the performance of religious duties, we recommend that persons directly engaged in religious duties, such as clergymen and members of religious orders, remain exempt from coverage under the program. Our recommendation would extend coverage only to lay personnel who perform services which are secular in character.

We also believe that public encouragement of religious, charitable, scientific, and educational enterprise should be continued through preservation of the traditional tax-exempt status of such institutions. That encouragement, however, would be better expressed, we believe, by extending social insurance protection to their employees than by continuing to deny it. Employers in the nonprofit field are at a considerable disadvantage in the labor market because they cannot offer retirement and survivorship protec-

tion, hence, coverage exclusion handicaps these organizations and fails to promote their services to the community.

Religious, charitable, scientific, and educational organizations, which have been traditionally exempt from taxation on income and property dedicated to the purposes which the community wishes to promote, can and should continue to enjoy their traditional tax exemption when the old-age and survivors insurance program is extended to their employees. It has long been customary to require such institutions to pay certain types of special assessments for property improvement, to pay Federal excise taxes, and in some States to pay the local and State taxes on commodities which they use. Even in some States with exclusive State funds, they have been required to carry workmen's compensation insurance. The use of Government compulsion in connection with these special taxes and levies has not led to taxation on the property and general income of these institutions. Moreover, many organizations such as trade-unions, trade associations, fraternal and beneficial organizations, and the like, which are exempt from the Federal income tax and certain other taxes, pay the old-age and survivors insurance contribution without appearing to be in danger of losing their exemptions under other laws.

Old-age and survivors insurance levies a special-purpose tax on the function of employment. The proceeds are automatically appropriated to a trust fund dedicated to benefits for those who have contributed. It has always been clear that it is a special kind of tax which should not serve as a precedent for other forms of taxation any more than would a special assessment levied by a local government. We believe, however, that Congress should indicate its intent that the taxation of nonprofit organizations for old-age and survivors insurance in no way implies a departure from the principle of promoting the function of these organizations through tax exemption, and that a major reason for extending protection to this area of employment is to assist these institutions in fulfilling their purpose.

5. *Note.*—The enactment of Public Law 426 by the Eightieth Congress has strengthened and improved the Civil Service Retirement Act. Some 500,000 Federal workers remain outside the coverage of any retirement system, however, and neither retirement nor survivorship protection is afforded Federal employees with less than 5 years of service. Estimates developed from prewar employment figures indicate that, in general, only about 60 percent of all persons entering Federal service remain for 5 years or more.

Persons who leave Federal service after having been employed for as much as 5 years but less than 20 years may elect to withdraw their con-

tributions instead of accepting a deferred annuity. When they so elect, they lose all retirement protection under the Civil Service Retirement Act. Whatever survivorship protection an individual may have acquired under the civil-service plan lapses as soon as he leaves the Federal service.

*Old-age and survivors insurance coverage should be extended immediately to the employees of the Federal Government and its instrumentalities who are now excluded from the civil-service retirement system. As a temporary measure designed to give protection to the short-term Government worker, the wage credits of all those who die or leave Federal employment with less than 5 years' service should be transferred to old-age and survivors insurance. The Congress should direct the Social Security Administration and the agencies administering the various Federal retirement programs to develop a permanent plan for extending old-age and survivors insurance to all Federal civilian employees, whereby the benefits and contributions of the Federal retirement systems would supplement the protection of old-age and survivors insurance and provide combined benefits at least equal to those now payable under special retirement systems.*

The Advisory Council believes that the civil-service retirement system—which now covers about 1.5 million workers—should be maintained as a supplementary retirement system because of its importance in furthering the efficient conduct of the business of government. The civil-service retirement system performs the function of a private staff-pension plan. For this function to be performed successfully and for the Government to meet the obligations created by its compulsory retirement of its employees, benefits larger than those payable under the general old-age and survivors insurance system must be provided. Hence, nothing should be done to weaken the Federal civil-service retirement system.

We are convinced, however, that extension of the coverage of old-age and survivors insurance to all Federal civilian employees (including those, other than foreign nationals, who are employed outside the United States) would strengthen rather than weaken the civil-service system. Such extension would remedy three major defects in the protection now afforded Federal employees—the lack of adequate survivorship protection, the lack of continuity of protection for those who move in and out of Government service, and the exclusion of many Federal workers from any Government retirement system.

The survivor benefits provided by Public Law 426 (80th Cong., 2d sess.), while of considerable value for long-term workers, are quite inadequate for the survivors of workers with relatively short periods of Federal service. First, no monthly survivor benefits are

payable unless the employee has had at least 5 years' service. Second, survivor benefits are very small if the employee has had only a short period of service and annual wages at about the current average. Thus, the widow of a Federal employee who had 5 years of service and an average annual salary of \$3,000 would receive a monthly payment of about \$11, and his child's monthly payment would be about \$6. The Federal employee, like all others, needs survivorship protection based on the insurance principle of full protection for the young worker as well as for the older age groups.

As noted above, persons who leave Federal employment with less than 5 years' service receive only a refund of their contributions to the civil-service retirement system, while those who leave after 5 years but before 20 years of service have the option of receiving either a refund of their contributions or a deferred annuity. Almost 20 percent of all Federal employees leave in their first year of Government employment and another 10 percent leave during the second year. According to data developed from prewar histories, only about one-third stay on to retirement. The time spent in Federal employment, moreover, reduces the possibility of obtaining adequate protection under old-age and survivors insurance. Extension of old-age and survivors insurance coverage to Federal employment would provide continuing protection for these short-time workers as well as for career employees.

The 500,000 persons who are now working for the Federal Government in civilian jobs and who are not covered by any Federal retirement program represent nearly one-fourth of the total of all Federal employees. The group includes some postal workers, and certain temporary, part-time, contract, and piecework employees.

Pending the development of a suitable plan, recommended by the agencies concerned, for extending old-age and survivors insurance coverage to all employees (except foreign nationals) and congressional action on such general extension, coverage should be extended immediately to the employees of the Federal Government and its instrumentalities who are not now covered under any system. Old-age and survivors insurance coverage would be particularly valuable to many employees in this group because they are temporary or part-time workers who may ordinarily work in employment now covered under old-age and survivors insurance.

In addition, we advocate some immediate provision for the employee whose Federal service is too short to furnish protection under the civil-service retirement system, even though he is covered by that system. Accordingly, as a temporary measure, pending complete extension of coverage to all Federal workers, we recommend that—when separated from Federal service, whether by death,

resignation, or dismissal before having served for 5 years—the Federal employee receive appropriate wage credits under old-age and survivors insurance for his Federal service.

When the employee leaves the service, he should receive a refund of his contributions to the civil-service retirement system, less an amount equal to the employee contribution which he would have paid on his wage credits if he had been contributing toward old-age and survivors insurance. The latter amount should be transferred to the Federal Old-Age and Survivors Insurance Trust Fund, and this transfer of credits and contributions should be irrevocable. In addition, the Federal Government, through an annual appropriation by the Congress, should pay the old-age and survivors insurance trust fund the employer's share of the contributions which would have been collected for old-age and survivors insurance with respect to the wage credits given for Federal service. To be eligible for full civil-service retirement benefits if he later returns to Federal service, the employee should be required, after completing 5 years of total service, to re-deposit the full amount of his previous contributions to the civil service retirement and disability fund. In some such instances, he will thus have duplicate credits for the same period of service. In a temporary plan, however, this duplication does not seem serious, since the employee will have paid for his credits under each program.

When the employee dies during his first 5 years of service, the old-age and survivors insurance trust fund should be reimbursed for the cost of that part of the benefits payable to his survivors which is attributable to his civil-service wages. This reimbursement should be based on recommendations by the Civil Service Commission and Social Security Administration as to the most equitable method for such reimbursement.

This proposal falls short of an adequate permanent solution to the problem. It does nothing, for example, for persons who, on leaving Federal service after 5 years, elect to take an immediate refund rather than a deferred annuity; it also fails to provide survivorship protection for those who leave Federal service. A temporary measure obviously cannot avoid all possible situations in which hardship may develop. The measures we propose are a stopgap to prevent the most glaring anomalies, until such time as complete old-age and survivors insurance coverage of Federal employees, with appropriate supplementation by the civil-service retirement system, can be adopted.

6. *Note.*—Like the civil-service retirement system, the Railroad Retirement Act has recently been substantially revised. The amendments of 1946 (Public Law 572, 79th Cong.) established survivorship protection

for railroad workers based on a combination of their earnings in the railroad industry and in employment covered by old-age and survivors insurance, under eligibility and benefit provisions closely resembling those of old-age and survivors insurance. No such coordination, however, is provided for retirement protection under the two programs, hence workers with earnings from both railroad employment and employment covered by old-age and survivors insurance, but with only a relatively few years in either one, may receive considerably lower retirement benefits in relation to their contributions than they would if all their employment had been covered under one program or the other. The extent of shifting between the two employment areas is substantial.

*The Congress should direct the Social Security Administration and the Railroad Retirement Board to undertake a study to determine the most practicable and equitable method of making the railroad retirement system supplementary to the basic old-age and survivors insurance program. Benefits and contributions of the railroad retirement system should be adjusted to supplement the basic protection afforded by old-age and survivors insurance, so that the combined protection of the two programs would at least equal that under the Railroad Retirement Act.*

The railroad retirement system developed out of special conditions on the railroads and has a distinctive history. It grew out of, and superseded, many private pension plans which had existed in the railroad industry, and through its adoption the protection which formerly had been afforded to only a limited number of railroad workers was made available to all. The protection against old age and premature death provided by the railroad retirement program is generally more liberal than that provided under old-age and survivors insurance, and long-service railroad workers are insured against the risk of permanent and total disability. Moreover, the contributions of the railroad program are considerably larger than those now payable under old-age and survivors insurance.

While the railroad program provides adequately for the workers who remain in the industry during their entire working lifetimes, inadequate protection is given in some instances to those who move between railroad and other employment. That this movement is very large is indicated by a comparison of the total number of workers employed by the railroads during a year with the average number at work at any one time. While average railroad employment in 1945 was nearly 1.7 million, about 3.1 million individuals had some railroad earnings during the year. Thus, for every 100 railroad employees working at a given time in 1945, 183 acquired railroad-retirement credits in that year; in 1940 this ratio was 100 to 140. During 1937-46 probably about 4,000,000 persons had wage credits

under both railroad retirement and old-age and survivors insurance; this group represents more than half the workers (approximately 7,000,000) with wage credits under the Railroad Retirement Act during the 10-year period.

Extension of old-age and survivors insurance to railroad employees would prevent losses in protection that may now result from these shifts in employment. It would also prevent the disproportionately high total of benefits which may result from shifting employment in some cases. Such cases arise when a higher-paid worker employed for the most part in the railroad industry, and so eligible for substantial railroad benefits, acquires enough credit under old-age and survivors insurance to qualify for benefits under that program also and receives the advantage of the weighting in the benefit formula of the latter program which is intended to favor lower-paid workers.

The railroad-retirement program gives railroad workers vested rights in retirement benefits regardless of the length of time they are employed. Thus, unlike Government employees, employees of non-profit organizations, and members of the armed forces, railroad workers are certain to qualify for at least some benefits under at least one retirement system. Nevertheless, we believe that employees who spend all or part of their working lives in the railroad industry should have all their employment credited under the old-age and survivors insurance program; otherwise, some railroad workers will contribute substantially toward the program without qualifying for its benefits. Furthermore, during the early years of the old-age and survivors insurance program, some persons who work for only a few years in railroad employment will have less in combined protection than they would if they had been under old-age and survivors insurance continuously.

If the basic protection of old-age and survivors insurance were extended to railroad employment, supplementary benefits under the railroad program would be needed to prevent railroad workers from receiving less retirement and disability protection than is now available to them. If the survivor benefits of old-age and survivors insurance are increased as we propose, they would be higher than survivors benefits under the present Railroad Retirement Act.

We believe that the basic differences between the structures of the retirement benefits under old-age and survivors insurance and the Railroad Retirement Act preclude any coordination short of extending old-age and survivors insurance coverage to railroad workers and making the Railroad Retirement Act a supplementary program. In our opinion, a satisfactory plan can be developed for extending old-age and survivors insurance to all railroad employees



and thus strengthening the protection now afforded railroad workers. A report on such a plan should be made to Congress at the earliest practicable date.

Extension of old-age and survivors insurance to railroad employees and making the railroad system supplementary to old-age and survivors insurance would result in lower pay-roll contributions by railroad workers and their employers for the same protection as at present if, as we propose, old-age and survivors insurance is ultimately financed in part by appropriations from general revenues.

*7. Old-age and survivors insurance coverage should be extended to members of the armed forces, including those stationed outside the United States.*

Although the career serviceman is eligible for retirement benefits after 20 years of service, the person who spends a shorter period in the armed forces is seriously handicapped by the fact that his military or naval service is not covered under old-age and survivors insurance. At his death his survivors may not be eligible for any benefits, since protection of peacetime servicemen under the programs for veterans ceases immediately on discharge from service; while if he lives to retirement age, he may fail to be eligible for retirement benefits under either old-age and survivors insurance or one of the special retirement plans. In other cases, benefits will be payable only under old-age and survivors insurance and at a greatly reduced rate because of the time spent in the armed forces. Extension of old-age and survivors insurance to the armed forces will give continuous basic protection both to the career serviceman and to those with shorter periods of military or naval service.

We believe that an adequate staff system affording retirement and survivorship protection for peacetime servicemen is essential to maintaining a strong and efficient military establishment. Although benefits payable under service retirement systems and the programs for veterans should be adjusted to supplement the basic benefits payable under old-age and survivors insurance, nothing should be done to weaken the military staff retirement system. The combined protection under the various programs should at least equal that afforded servicemen at present.

Wage credits under old-age and survivors insurance for personnel of the armed forces should represent the amount of remuneration actually received, including the cash value of perquisites and the amount of allowances to the extent that such perquisites and allowances can be regarded as remuneration for services performed. Perquisites furnished and allowances paid solely in consideration of the serviceman's dependents, however, probably can-

not be so regarded, since they do not vary with the grade of the serviceman or the type of services performed.

The Federal Government, as the employer, should pay the equivalent of the employer tax under the Federal Insurance Contributions Act, and the servicemen themselves should bear the cost of the employee contribution. Servicemen should have the same interest and stake in the system that other covered workers have, and the contributory character of the basic insurance program should be maintained.

8. *The Federal Government should enter into voluntary agreements with the States for the extension of old-age and survivors insurance to the employees of State and local governments, except that employees engaged in proprietary activities should be covered compulsorily.*

Voluntary coverage of a limited group under an otherwise compulsory social insurance system is ordinarily undesirable and unwise. Under a system such as old-age and survivors insurance, in which benefits are not directly related to the value of the contributions paid, voluntary participation is likely to result in disproportionately large benefits for those who elect coverage. Even if voluntary participation is limited to entire groups of workers, the organizations that elect coverage are likely to be those in which most employees are persons nearing retirement age or men with large families. The smaller the organization, of course, the greater the danger of this "adverse selection."

Because of the apparent constitutional barrier against Federal taxation of the States, however, coverage of the employees of State and local governments, except for those engaged in proprietary functions, will have to be on a voluntary basis unless these Government employees are to be denied the protection of the Federal program. Because of this fact, and because a clear need exists for old-age and survivors insurance protection of these employees, the Council believes that a voluntary plan should be offered to State and local governments in their capacity as employers.

Coverage can and should be extended on a compulsory basis to Government employees engaged in proprietary—as opposed to Government—functions of the employing units. Proprietary activities include, for example, State liquor stores, municipal subway systems, and other public utilities that are owned and operated by the Government unit. Compulsory extension of coverage to these groups appears to raise no constitutional questions and would immediately give 150,000 to 200,000 workers the advantages of basic social insurance protection.

Under a voluntary system, adverse selection occurs when coverage is elected by only a part of the total employee group and that part is not representative of the entire group. Such selection can be controlled to some extent by restricting the employer's latitude of choice in determining coverage of the plan. The Council, therefore, recommends that coverage be permitted only when elected for all employees within an occupational or departmental group. Thus, when coverage is extended to a government department, bureau, or other administrative division of the State or of a locality, all employees of the department would have to be covered. If coverage is extended to an occupational group, all employees of a State or of a local government unit who are engaged in the specified type of work (such as teachers, typists, truck drivers, janitors) would have to be covered.

As further assurance that the covered group will contain a reasonably representative distribution of risks, coverage should be permitted only if one-fourth of the employees of the State or local government (such as a county, township, municipality, or school district) are brought into the program. This requirement would probably be adequate for the larger local government units, but a more restrictive one is recommended for localities with less than 400 employees. If the locality has less than 400 but more than 100 employees, coverage would have to be elected for at least 100 employees. If the local government unit has 100 or fewer employees, all would have to be covered.

It is recommended that agreements be entered into only with States, although political subdivisions of the State should be permitted to participate. A State entering into an agreement would assume the responsibilities of an employer under old-age and survivors insurance; that is, the State, both for itself and for those of its political subdivisions which participate in the agreement, would collect and transmit to the Federal Government wage information and contributions. The fact that the Federal Government would deal only with the States would greatly reduce an otherwise heavy administrative burden. Since the agreements would be voluntary, no question of the Federal right to levy a tax on States and localities would be raised.

As of April, 1947, nearly 4,000,000 employees of States, political subdivisions of States, and instrumentalities of State and local governments were excluded from old-age and survivors insurance. The average earnings of these employees as a rule are somewhat lower than those in private industry. The average monthly salary during April, 1947 was \$160 for nonschool employees and \$185 for school

employees as compared with an average monthly wage of about \$205 in manufacturing industries.

Almost half the total number of State and local employees are not covered under any retirement system, and of those who are so covered, probably about four-fifths lack adequate survivorship protection. The need of this group for the protection of the old-age and survivors insurance program is clear. An equally important reason for extending old-age and survivors insurance to employees of State and local governments is to give public workers continuous protection when they shift from one government unit to another, or between government units and private industry. Existing State and local staff retirement systems are designed primarily for those who continue in the service of the particular unit until their retirement; the majority of those who leave the service before retirement age normally forfeit any rights to retirement benefits they may have acquired. Similarly, persons who enter Government employment from private industry may lose all or part of the protection they have acquired under old-age and survivors insurance.

Although jobs in State and local government agencies are more stable than in many areas of private industry, there is nevertheless a substantial turn-over. In April, 1946, a typical month, 3.4 million persons were employed by State and local governments, while during the whole year about 4.3 million were so employed. Thus, several hundred thousand had temporary employment in these units, or shifted from permanent government jobs to work in other fields. In 1944, about one-seventh of all nonschool employment for State and local government units was on a part-time basis and about one-eighth of all State and local employment was temporary. Even for the permanent, full-time jobs, the annual turn-over probably ranges from 4 to 7 percent.

Many proposals previously advanced for covering these workers have advocated excluding, on either a permissive or a mandatory basis, various limited groups of State and local employees, apparently in fear that coverage under old-age and survivors insurance would weaken or even completely destroy their State and local retirement system. As pointed out in the Council's recommendations for coverage of Federal and railroad employees, retirement systems supplementary to old-age and survivors insurance perform a valuable and necessary function. When coverage is extended to State and local employees who are members of staff retirement systems, those systems can be adjusted to supplement the basic old-age and survivors insurance benefits. Private employers have demonstrated that such adjustments can be made satisfactorily and without any loss in total retirement protection. The Council believes that in

light of (a) the incontrovertible merit of the retention and development of supplementary plans, (b) the fact that employees under industrial pension systems did not suffer losses in benefits attributable to adjustment to the old-age and survivors insurance program, and (c) the fact that State and local governments have recognized the need for, and taken action to provide, retirement protection for their employees, any fear that the availability of old-age and survivors insurance will lead government units to reduce the total protection afforded their employees is unjustified.

*9. A commission should be established to determine the kind of social-security protection appropriate to the possessions of the United States.*

The social insurance and public assistance provisions of the Social Security Act do not at present apply to Puerto Rico, the Virgin Islands, Guam, or other possessions of the United States, even though the livelihood and security of the people of such possessions are bound up with the United States economy. The kind of social-security protection to be afforded to these people should be based on detailed studies of economic and social conditions in the islands. Matters that require investigation include wage rates, regularity of employment, extent of unemployment, incidence of illness, and the nature of public assistance and public-health provisions now administered by the insular governments.

The extended inquiry which would be called for, particularly since areas outside the continental United States are involved, is believed by the Council to be beyond its function. For this reason the Council proposes that a special commission be established to make such inquiry and recommend appropriate social-security legislation. The commission should represent the general public, including residents of the possessions, as well as agencies such as the Federal Security Agency and the Departments of Labor, Agriculture, Interior, Commerce, and Treasury, which either have a special interest in the islands or would normally concern themselves with the problems at issue.

*10. The definition of wages as contained in section 209 (a) of the Social Security Act, as amended, and section 1426 (a) of subchapter A of chapter 9 of the Internal Revenue Code should be amended to specify that such wages shall include all tips or gratuities customarily received by an employee from a customer of an employer.*

Tips or gratuities paid directly to an employee by a customer of an employer, but not "accounted for" by the employee to the

employer, are not now included in wages as defined for benefit and contribution purposes. Only a small part of all tips are now accounted for. Consequently, substantial numbers of workers in such service industries as hotels, restaurants, barber shops, and beauty parlors are denied the degree of protection they would acquire if all such payments were included in their wage records. Some workers may fail to qualify for benefits because, except for tips, their remuneration is inconsequential. This condition is especially illogical since tips are frequently contemplated in the wage contract, are earned in the service of the employer, and are received for services generally recognized as performed in the interest of the employer.

Tips are included in taxable income under the Federal income-tax law. Moreover, in about half the States, such payments are reported under the State unemployment insurance laws on a more inclusive basis than under the program of old-age and survivors insurance.

Estimates indicate that full inclusion of tips and gratuities would sharply increase the wage credits of approximately a million workers now covered by the old-age and survivors insurance program. The increase for roughly two-thirds of that number would amount to about 40 percent of their wages as reported under present interpretation of the law. According to Department of Commerce estimates, \$183,000,000 was paid in tips in 1939; \$196,000,000 in 1940; \$238,000,000 in 1941; \$308,000,000 in 1942; and \$396,000,000 in 1943. If a similar rate of increase continued after 1943, as seems likely during years of high prices, the total amount now paid in tips might well exceed half a billion dollars a year. The inclusion of such additional sums in the wage credits of approximately a million workers in covered service industries would clearly have an important effect on their benefits rights and their contributions to the trust fund.

In the absence of an exact reporting of tips by persons receiving them, it would be possible to permit employers to report a reasonable estimate of the tips received by their employees, as is now done under some of the State unemployment insurance laws. In making such estimates, the employer would take into account the volume of business handled by the employee, the tips reported by other employees, the type of establishment, and any other pertinent factors. The employer should not be held responsible for any inaccurate reporting of tips by his employees, however, and should be protected from penalties on this account. Procedural and administrative questions could be settled by appropriate regulations designed to implement the intent of the law.

Adoption of this recommendation, the Council believes, would bring the contributions paid and the benefits received by a large number of people more nearly in line with their actual earnings, thus ending an inequity to persons whose employment is covered by the program but who receive much of their remuneration for such employment in a form not now considered wages. It would also result in greater uniformity in interpretation of wages in laws relating to income taxes, unemployment insurance, and old-age and survivors insurance.

### Recommendations on eligibility

11. *To permit a larger proportion of older workers, particularly those newly covered, to qualify for benefits, the requirements for fully insured status should be 1 quarter of coverage for each 2 calendar quarters elapsing after 1948 or after the quarter in which the individual attains the age of 21, whichever is later, and before the quarter in which he attains the age of 65 (60 for women) or dies. Quarters of coverage earned at any time after 1936 should count toward meeting this requirement. A minimum of 6 quarters of coverage should be required and a worker should be fully and permanently insured if he has 40 quarters of coverage. In cases of death before January 1, 1949, the requirement should continue to be 1 quarter of coverage for each 2 calendar quarters elapsing after 1936 or after the quarter in which the age of 21 was attained, whichever is later, and before the quarter in which the individual attained the age of 65 or died.*

The Council recommends a "new start" in the eligibility requirements which will require the same qualifying period for an older worker now as was required for a person who was the same age when the system began operation. All workers who will have attained age 62 before the middle of 1949 would be insured with the minimum of 6 quarters of coverage, just as workers of the same age in 1937 could be insured with the minimum number.

A major reason for the fact that the old-age and survivors insurance program has been slow in replacing public assistance as the chief method of meeting income loss in old age is the difficulty which older people face in meeting the present eligibility requirements. Eleven years after the inauguration of the program only about 20 percent of the population aged 65 and over is either insured under the program or receiving benefits.

Eligibility requirements for the older workers as difficult to meet

as those of the present program (24 quarters of coverage will be required under present provisions for those attaining age 65 in the first quarter of 1949) mean an unwarranted postponement of the effectiveness of the insurance method in furnishing income for the aged. In a contributory social insurance system, as in a private pension plan, workers already old when the program is started should have their past service taken into account. The unavailability of records of past service prevents giving actual credits under old-age and survivors insurance for employment and wages before the coverage becomes effective, but eligibility requirements and the benefit formula can and should take prior service into account presumptively. To pay benefits to all the current aged—including those who have not worked at all since the inauguration of the system—might endanger the character of the benefit based on contributions and work records, but in getting the system started, it is important to make due allowance for those who, because of age, will probably continue at work for only a short period.

All persons who reached age 62 before the middle of the year in which the system began to operate (1937) could be fully insured under the present act if they acquired 6 quarters of coverage. Those who attained age 62 in the third or fourth quarters of 1937 needed 7 quarters, and so on, while, as indicated above, those attaining age 65 in the first quarter of 1949 will need to have had 24 quarters. After 1956, under the present provisions, all persons who had attained age 21 before 1937 will need the maximum requirement of 40 quarters.

Unless the present provisions are modified, all persons covered for the first time in January, 1949 who are less than 57 years old will have to have 10 years of coverage before they can become eligible for retirement benefits, while even those aged 65 will need six more years of steady employment before they can receive benefits. A "new start," treating those newly covered workers in the same way that the program treated other occupational groups when they were first covered, seems reasonable and fair.

While it would theoretically be possible to liberalize requirements only for newly covered workers and to retain the present provisions for all others, this is not a practical or desirable solution. Shifts between covered and noncovered employment are so common that it would be all but impossible to establish a fair criterion for determining, for the purpose of special eligibility requirements, which individuals should be treated as belonging to a newly covered occupation. Any liberalization designed to reduce the handicap of newly covered workers must be a generally applicable provision.



The Council recommends that the liberalization of eligibility requirements should apply only to individuals living at the date of coverage extension. This proposal is consistent with the treatment accorded survivors under the 1939 amendments when the provisions for survivor benefits were made applicable only in cases of death after December 31, 1939. Considerable administrative difficulty would arise if the eligibility for benefits of individuals who died before the amendment of the law were reconsidered.

Of the various possible methods of adjusting the fully insured status requirement for newly covered workers, the one we recommend seems to us to offer the advantages of uniformity and simplicity and at the same time to provide a much-needed liberalization in the requirements for all older workers. It would also reduce the disadvantages which many workers normally in covered employment now face because of their work during the war in Government shipyards, munitions plants, emergency Government agencies, and other noncovered occupations.

The new-start method would be impractical if extension is on a piecemeal basis. More than one "new start," we believe, would be indefensible and would tend to weaken public confidence in the program. It would be possible to use the new-start plan, however, even though coverage is not extended to Federal and railroad workers until later, since available records of past employment and wages for these workers would permit crediting their back wages. Under such an arrangement, amounts equivalent to the contributions which would have been collected if the workers had previously been covered under old-age and survivors insurance could be transferred to the old-age and survivors insurance trust fund from the trust funds for their separate Federal retirement systems.

The "new start" would result in payment of retirement benefits to a much higher proportion of the aged during the early years of the system, but it would not increase beneficiary rolls and costs in the later years since the eligibility requirements would remain the same for workers now young.

## RECOMMENDATIONS ON BENEFITS

*Old-Age and Survivors Insurance.* Report to the Senate Committee on Finance from the Advisory Council on Social Security, 80th Cong., 2d Sess. Washington: Government Printing Office, 1948.

12. *To take into account increased wage levels and costs of living, the upper limit on earnings subject to contributions and credited for benefits should be raised from \$3,000 to \$4,200. The maximum average monthly wage used in the calculation of benefits should be increased from \$250 to \$350.\**

A SOCIAL INSURANCE program must be adjusted periodically to basic economic changes. In a dynamic economy, provisions which were appropriate at the time they became effective inevitably become outmoded. This is what has happened to the limitation placed on the amount of wages subject to contributions and allowed as wage credits.

In 1939, when the \$3,000 maximum wage base was established, nearly 97 percent of all workers in covered employment had wages of less than \$3,000 a year, and thus they were required to pay contributions on their total wages and could have their total wages counted toward benefits. Even among workers who were steadily employed throughout 1939, fewer than 5 percent received wages of more than \$3,000 a year. With the general rise in wage levels since 1939, however, the \$3,000 limitation has tended to exclude from taxation and use in benefit computations part of the wages of a substantial proportion of covered workers. In 1945 about 14 percent of all covered workers had wages exceeding \$3,000, and among workers who were steadily employed throughout the year, about 24 percent had wages in excess of that amount.

The wage base for contributions and benefits under the program should be higher not only because of increases in the level of wages but also because of price increases. Since the base has not kept pace with rising prices, benefits now supply a smaller proportion of the costs of maintaining the beneficiary's previous standard of living than they did in 1939. Today for example, \$4,200 a

\* While the majority of the Council favor increasing the upper limit to \$4,200, some favor keeping the limit at \$3,000 and some favor increasing it to \$4,800. The reasons for these two positions are given in appendix G.

year represents a somewhat lower standard of living than \$3,000 a year could purchase a decade ago. Raising the upper limit on wages is necessary if the relationship between benefits and standards of living which was intended in the 1939 amendments is to be maintained.

To take full account of the increase in wages and prices, the limitation on taxable wages would have to be raised to somewhat more than \$4,800. The Council, however, recommends that a part of the increase in wages be disregarded by changing the limitation to \$4,200 as a conservative adjustment to the rise in wage and price levels which has occurred since the \$3,000 figure was adopted. With a wage base of \$4,200, about 95 percent of the workers in covered employment in 1945 would have had all their wages from covered employment available for benefit purposes.

If the old-age and survivors insurance program is to fulfill its function, benefits for all insured workers must be increased. Since the American system of relating benefits to past wages rests on the principle that considerations of individual security and individual incentive require a relationship between benefits and the previous standard of living of the retired person, benefits must be increased for higher-paid wage earners as well as for workers in the lower-income brackets. Comparisons between the primary insurance benefits payable under the plan proposed by the Advisory Council and those payable under the present program appear in Table 1. As those figures show, we recommend that a worker with an average monthly wage of \$350 (the maximum) shall have the potential protection of a primary insurance benefit representing 22.5 percent of his average monthly wage. Under the present program, that percentage represents the primary insurance benefit of a worker who has earned \$3,000 or more a year and who has had 40 years of coverage.

An objective of the present law is to have workers in the highest wage brackets covered by the system pay the costs of their own benefits over a full working lifetime. Under the benefit formula we have recommended, benefits for the \$4,200-a-year man bear approximately the same relation to his contributions as benefits under the present law bear to the contributions of the \$3,000-a-year man.

With the increased base, the high-paid person will have somewhat higher benefits than he would have had if only the formula were changed, but he will, in the long run, pay for nearly all the increase in the cost of his benefits. If the wage base is not increased, those in the higher wage brackets will have higher benefits without having contributed toward the cost of the increases.

TABLE 1

PRIMARY INSURANCE BENEFIT AND ITS RATIO (PERCENT) TO  
SPECIFIED AVERAGE MONTHLY WAGES UNDER THE  
ADVISORY COUNCIL'S PROPOSALS AND UNDER THE PRESENT LAW\*

Average Monthly Wage	Advisory Council's Proposal†		Present Law					
			10 Years of Coverage		20 Years of Coverage		40 Years of Coverage	
	Primary Insur- ance Benefit	Percent of Aver- age Monthly Wage	Primary Insur- ance Benefit	Percent of Aver- age Monthly Wage	Primary Insur- ance Benefit	Percent of Aver- age Monthly Wage	Primary Insur- ance Benefit	Percent of Aver- age Monthly Wage
\$50....	\$25.00	50.0	\$22.00	44.0	\$24.00	48.0	\$28.00	56.0
\$75....	37.50	50.0	24.75	33.0	27.00	36.0	31.50	42.0
\$100...	41.25	41.2	27.50	27.5	30.00	30.0	35.00	35.0
\$150...	48.75	32.5	33.00	22.0	36.00	24.0	42.00	28.0
\$200...	56.25	28.1	38.50	19.2	42.00	21.0	49.00	24.5
\$250...	63.75	25.5	44.00	17.6	48.00	19.2	56.00	22.4
\$300...	71.25	23.8	44.00	14.7	48.00	16.0	56.00	18.7
\$350...	78.75	22.5	44.00	12.6	48.00	13.7	56.00	16.0

\* The percentage is higher when a wife's benefit is also payable.

† Uniform for all years of coverage.

‡ Maximum primary insurance benefit possible under the benefit formula.

13. *The average monthly wage should be computed as under the present law, except that any worker who has had wage credits of \$50 or more in each of 6 or more quarters after 1948 should have his average wage based either on the wages and elapsed time counted as under the present law or on the wages and elapsed time after 1948, whichever gives the higher result.*

Persons whose occupations have been excluded from coverage under the present program will suffer serious disadvantage after coverage is extended, unless an alternative is permitted for the present method of calculating the average monthly wage. Under the present law, benefit amounts are based on an average computed, in general, by adding all wage credits a worker has received for covered employment and dividing that sum by all the months elapsing since 1936, except for quarters before the worker reached age 22 in which he received less than \$50. On this basis, a worker who has been in an employment hitherto excluded from coverage will always be penalized for his former lack of coverage, since, in effect, his wages from newly covered employment will be averaged over all the months elapsed since 1936 or since he reached age 22, if later. His low average wage, in turn, will result in a low benefit amount.

The Council believes that an appropriate way to eliminate this handicap for newly covered groups would be to have their average wages computed from the date of the coverage extension, just as the average wage now disregards periods before January 1, 1937, for those in employments first covered as of that date. Since large numbers of workers have been in both covered and non-covered employment, however, it would be almost impossible to establish a sound basis for determining which individuals should be treated as belonging to a newly covered group. The opportunity to profit from the provisions designed for the newly covered groups must, therefore, be open to all persons.

Unless previously covered workers also have the alternative of a "new start," moreover, many will fare worse than those newly covered, since the relatively low wages paid in the late thirties and early forties will tend to reduce their average wages and thus yield benefit amounts lower than those of newly covered persons in comparable jobs.

Some insured persons will have little or no covered employment after the date coverage is extended; others will have too small an amount to form a fair basis for determining an average; and others may have employment after the "new start" at wages much lower than their previous earnings. The starting point of January, 1937 specified in the present law should, therefore, be retained as an alternative and the individual worker's average wage computed from that date if it gives a higher amount than would the "new start."

The new start for all, on an alternative basis, appears to be the only equitable plan, but for the reasons pointed out in the recommendation for a new start on insured status (recommendation 11), we do not recommend a new start unless coverage is extended broadly as of one date.

14. *To provide adequate benefits immediately and to remove the present penalty imposed on workers who lack a lifetime of coverage under old-age and survivors insurance, the primary insurance benefit should be 50 percent of the first \$75 of the average monthly wage plus 15 percent of the remainder up to \$275.† Present beneficiaries, as well as those who become entitled in the future, should receive benefits computed according to this new formula for all months after the effective date of the amendments.*

† The members of the Council who favor retaining \$3,000 as the maximum annual wage credit and taxable wages would retain \$250 as the maximum average monthly wage. They advocate a primary insurance benefit representing 50 percent of the first \$75 of that monthly wage plus 15 percent of the remainder up to \$175.

The benefit formula of the present program, with its automatic increase of 1 percent for each year of coverage, in effect postpones payment of the full rate of benefits for more than 40 years from the time the system began to operate. Under such provisions, if the benefit amount of a retired worker after he has had a lifetime of coverage represents a reasonable proportion of his average wage, that for older workers who have been in the system for only a few years and for the survivors of younger workers will almost of necessity be inadequate. Thus, the survivors of a man who began working at age 20 and dies at age 30 will have rights to benefits only about three-fourths as large as those which the same average monthly wage would have provided if he had lived to age 65. Yet the worker who dies at an early age has had less opportunity than have older workers to accumulate savings and other resources to supplement the benefits payable to his survivors. The Advisory Council believes that adequate benefits should be paid immediately to retired beneficiaries and survivors of insured workers but considers it unwise to commit the system to automatic increases in the benefit for each year of covered employment.

Benefits payable under old-age survivors insurance, with the beneficiaries' other permanent resources, should suffice to supply at least the basic necessities of life for the great majority of beneficiaries. The present program does not achieve this objective. Field studies made by the Bureau of Old-Age and Survivors Insurance in 1941 and 1942 in seven cities showed that one-third of the primary beneficiaries surveyed had insufficient nonrelief income, assets, and possible help from relatives in their household for a maintenance level of living and that, taking account of their own permanent resources only, nearly two-thirds of the beneficiaries had less than was required for a maintenance budget.

Inadequate as benefits were in 1941-42, they are even less adequate now that costs of living have increased by at least 60 percent. The average primary benefit now being paid is only about 10 percent higher than that paid in 1940. The table in appendix E shows the distribution of benefits being paid under the present program at the end of 1947. The inadequacy of these benefits is self-evident.

The benefit formula in the present Social Security Act provides a primary benefit representing 40 percent of the first \$50 of the average monthly wage and 10 percent of the next \$200. It is thus weighted in favor of workers whose average wages are low. As a result of increases in wage rates, the effect of the original weighting, however, has been substantially reduced. In 1939, when the program was drafted and approved, \$50 represented about one-half

the average monthly earnings of fully employed persons in covered employment. By 1947, fully employed workers were receiving an average of about \$185 a month. As a conservative recognition of the effect of wage increases on the original weighting, the Council recommends a change in the benefit formula to make \$75 the upper limit for that part of the average monthly wage to which the higher percentage is applied.

This change, however, will not in itself sufficiently increase the primary benefits of low-wage workers. Many beneficiaries now on the rolls receive benefits based on an average monthly wage of less than \$75. These beneficiaries and others in the future whose benefits are based on low wages lack outside resources and should not be denied the right to more liberal benefits. If the benefit formula gave 50 percent, rather than 40 percent, of the first \$75 of the average monthly wage, the beneficiaries whose rights are based on low wages would receive fairly substantial increases in their benefit amounts.

We also propose that the percentage applied to the portion of the average wage above \$75 be increased to 15 percent. If that percentage remains fixed at 10 percent, there will be too little spread between the benefit amounts of low-income and high-income workers. Thus, for an average monthly wage of \$100, the primary benefit would be only \$10 less than that for an average wage of \$200, a differential that we believe is insufficient for the wage interval of \$100-\$200, which now includes the great majority of workers in covered employment.

We believe that benefits should be related to the continuity of the worker's coverage by and contributions to the system, as well as to the amount of his earnings. Under our recommendations, accordingly, benefits will continue to vary—as they now do—with both these factors. Thus, in figuring the average monthly wage (recommendation 13), a worker's total wage credits are—and would continue to be—divided by the total number of months that he might have been contributing to the system. His average wage, and consequently his primary benefit, will therefore be the smaller for each month lacking in his record of covered employment. In our opinion, this method of adjusting benefits permits sufficient differentiation between workers who are steadily employed in covered jobs and those whose covered employment is only brief or intermittent. Thus, an increment is not needed for the purpose of such differentiation.

With coverage broadly extended, the increment would serve largely to reward younger workers for their greater contributions by paying them higher retirement benefits than those paid to per-

sons who were old when the system started. To us, such discrimination seems undesirable. The older worker should not be penalized for the fact that he could not contribute throughout his life. We propose, in effect, that, as in many private pension plans, the older worker receive credit for his past service and acquire rights to the full rate of benefits now.

TABLE 2

ILLUSTRATIVE OLD-AGE BENEFITS UNDER PRESENT FORMULA\* AND  
THAT PROPOSED BY ADVISORY COUNCIL†

[NOTE.—Potential beneficiary in covered employment continuously from Jan. 1, 1937,  
to date shown.]

Average Monthly Wage	Basic Amount‡		Entitlement Date					
			Jan. 1, 1949 (12 Years of Coverage)		Jan. 1, 1957 (20 Years of Coverage)		Jan. 1, 1977 (40 Years of Coverage)	
	Present Law	Advisory Council Proposal	Present Law	Advisory Council Proposal	Present Law	Advisory Council Proposal	Present Law	Advisory Council Proposal
\$50....	\$20.00	\$25.00	\$22.40	\$25.00	\$24.00	\$25.00	\$28.00	\$25.00
\$75....	22.50	37.50	25.20	37.50	27.00	37.50	31.50	37.50
\$100....	25.00	41.25	28.00	41.25	30.00	41.25	35.00	41.25
\$125....	27.50	45.00	30.80	45.00	33.00	45.00	38.50	45.00
\$150....	30.00	48.75	33.50	48.75	36.00	48.75	42.00	48.75
\$200....	35.00	56.25	39.20	56.25	42.00	56.25	49.00	56.25
\$250....	40.00	63.75	44.80	63.75	48.00	63.75	56.00	63.75
\$300....	\$40.00	71.25	\$44.80	71.25	\$48.00	71.25	\$56.00	71.25
\$350....	\$40.00	78.75	\$44.80	78.75	\$48.00	78.75	\$56.00	78.75

\* 40 percent of the first \$50 of the average monthly wage plus 10 percent of the next \$200, increased by 1 percent of the sum of the foregoing for each year of coverage.

† 50 percent of the first \$75 of the average monthly wage plus 15 percent of the next \$225.

‡ Under present law, the benefit amount without the increment for years of coverage; under the Advisory Council's proposal, the amount payable.

§ Maximum average monthly wage used in computing benefits under present law is \$250.

A major draw-back in liberalizing a benefit formula that contains an increment lies in the danger that benefits in future years will be excessively high. By eliminating the increment, the benefits paid now can be more adequate than would seem feasible if the level of benefits were also to be raised automatically in future years by the application of an increment in the formula.

15. To increase the protection for a worker's dependents, survivor benefits for a family should be at the rate of three-fourths of the primary insurance benefit for one child and one-half for each additional child, rather than one-half for all children as



*at present. The parent's benefit should also be increased from one-half to three-fourths. Widows' benefits should remain at three-fourths of the primary insurance benefit.*

Adoption of this recommendation would serve mainly to provide higher benefits for children of deceased workers, since few parents of insured workers are eligible for benefits. Families consisting of young children and widowed mothers would benefit particularly from this recommendation. Studies made by the Bureau of Old-Age and Survivors Insurance in 1940-42 indicate that this beneficiary group is the one most in need of benefit increases. Of the widows with entitled children, 44 percent—a larger percentage than for any other beneficiary type—were found to have insufficient income for a maintenance level of living and had net assets of less than \$2,500. Of the widows with three or more children, 73 percent had to live below this maintenance level.

Under the present program, the benefit rates of family groups of the same size vary, before the application of the maximums, in ways unrelated either to need or to insurance principles. There are three types of monthly benefits, in addition to the primary insurance benefit, which an individual may receive without other benefits being payable in the same family group. An aged widow as a sole beneficiary receives three-fourths of the primary insurance benefit, and the survivor benefit payable to one child or to one dependent parent of a deceased insured worker equals one-half the primary benefit. Family groups with two beneficiaries may receive one and one-half times the primary benefit (husband and wife), one and one-fourth times the primary benefit (widow and child), or the same amount as the primary benefit (two children or two dependent parents). Families with three beneficiaries may receive twice the primary benefit (retired worker, wife, and child), or one and three-fourths times the primary benefit (widow and two children), or one and one-half times the primary benefit (three children).

There is no good reason for these differentials in benefit rates. The Council's recommendation would result in a uniform ratio to the primary benefit for all survivor benefits paid to a sole beneficiary and for all two-person and three-person beneficiary groups, except for those consisting only of children.

16. *To equalize the protection given to the dependents of women and men, benefits should be payable to the young children of any currently insured woman upon her death or eligibility for primary insurance benefits. Benefits should be payable also (a) to the aged, dependent husband of a primary beneficiary*

*who, in addition to being fully insured, was currently insured at the time she became eligible for primary benefits, and (b) to the aged, dependent widower of a woman who was fully and currently insured at the time of her death.*

Under the present program, insured women lack some of the rights which insured men can acquire. Thus, when an insured married woman dies or retires, monthly benefits can seldom be paid to her children on the basis of her wage record and are never payable to her husband. If she has been working steadily before her death or retirement, the Council believes her participation in the insurance program should carry protection against the loss of her earnings, which presumably have been an important part of the family income.

The changes proposed by the Council would mainly affect orphaned children. At present, young children of a deceased insured woman can receive monthly benefits based on her wage record only if the father has died or if the child was not living with his father and had been supported by his mother. Under our proposal, monthly benefits would be payable to the young children of any woman who died currently insured, in recognition of the fact that the earnings of a working wife are an important contribution toward the support of the family.

Supplementary child's benefits should be payable to the young children of any retired woman who was currently insured when she attained age 60. If both husband and wife are primary beneficiaries, however, the child would receive only the benefits based on the larger of the two wage records. In the majority of such instances, the child's benefits would thus be based on the father's wage record rather than on the mother's, but the mother's insurance should be the basis of the benefit if it would yield a larger addition to the family's benefit income. Since very few women aged 60 or over have children under age 18, however, supplementary child's benefits will be payable with respect to retired women in relatively few cases.

We also believe that a widower who was dependent on his fully and currently insured wife at the time of her death should receive a benefit based on her wage credits when he attains age 65, but as is now the case for aged widows, he should receive his widower's benefit only if it is larger than the primary benefit based on his own earnings.

Similarly, supplementary benefits should be payable to the dependent husband (at age 65 or over) of a female primary beneficiary who was currently insured at the time she attained age 60.

These husband's benefits would be comparable to the present wife's benefits for wives of male primary beneficiaries. Such benefits will be payable in relatively few cases, however, because the man would receive only the larger of the husband's benefit or his own primary benefit.

Except in the case of family situations in which supplementary or survivor benefits are payable under present law, we advocate that supplementary or survivor benefits be payable only on the wage record of a woman who was currently insured on her attainment of age 60 or her death. A woman who has not worked in at least half the calendar quarters of the 3 years immediately preceding her retirement or death is not likely to have been responsible for even partial support of her family. If she is fully but not currently insured, all her gainful employment will in most cases have antedated her marriage or the birth of her children, and her death will mean no loss of income for the family.

The cost of paying the proposed supplementary and survivor benefits to dependents of women workers will be very small. Relatively few aged dependent husbands and widowers or children of retired women workers will qualify for benefits, for most of the men will be eligible for higher primary benefits in their own right and few aged women have children under 18. Although benefits to children of deceased insured younger women will be paid more frequently, they will cost considerably less than 0.1 percent of pay rolls.

*17. To increase the family benefits, the maximum benefit amount payable on the wage record of an insured individual should be three times the primary insurance benefit amount or 80 percent of the individual's average monthly wage, whichever is less, except that this limitation should not operate to reduce the total family benefits below \$40 a month.*

The Advisory Council believes that the wife of a retired beneficiary and each of his children under age 18 should receive 50 percent of the primary insurance benefit, the same proportion as under the present program. According to recommendation 15, however, the widow and the first child of a deceased insured worker would each receive 75 percent of the primary insurance benefit, while each additional child would receive 50 percent. The total monthly amount of benefits payable when deceased insured workers leave very large families might thus be excessive unless some maximum limits the total monthly amount of benefits payable on the basis of a single wage record.

Under present law, whenever the total of all monthly benefits

payable with respect to the wage record of an individual exceeds (1) \$85, or (2) twice the primary benefit amount, or (3) 80 percent of the wage earner's average monthly wage, the total must be reduced to the least of these three. These limitations, however, do not operate to reduce the total family benefits below \$20 a month.

The increase in the wage base (recommendation 12) and the changes in the benefit formula (recommendation 14) which the Council has recommended make the \$85 maximum too restrictive. The average primary insurance benefit under our proposals will be about \$50 and the maximum primary insurance benefit will be \$78.75. At higher levels of average monthly wages (about \$200), full benefits could not be paid to the wife of a primary beneficiary or to a widow and one child if the \$85 maximum were retained. If the primary beneficiary also had a minor child, full benefits could not be paid to the family even at average monthly wages of about \$110. The majority of family benefits would be reduced by this dollar maximum, and much of the value of a family benefit system would be lost. To maintain a proper recognition of family need, the \$85 maximum limitation must be removed.

Moreover, it is unnecessary in our opinion to place any specific dollar limit on the benefit amount. The other maximums we propose will serve to keep benefits at reasonable levels. The highest payments that can be made under our proposals are justified by the large amount of the worker's contributions as well as by the large number of his dependent survivors.

The maximum of 80 percent of the average monthly wage should be retained. The Council is convinced of the soundness of the principle that social insurance benefits should be less than the former wages of the worker covered by the program. This principle, however, should not be applied to reduce total family benefits below \$40 a month. A widow and two children should receive an amount based on the full minimum primary benefit (recommendation 18), as they can at present, even though the amount exceeds 80 percent of the insured worker's average monthly wage.

The Council recommends an additional maximum of three times the primary benefit. The present maximum of twice the primary benefit is too restrictive. It reduces the family benefits of larger families in the moderate income groups more sharply than do either of the other maximums in the present program. Probably few groups for whom more liberal benefits should be recommended are in greater need of additional income than are these larger families. The hardship to the children is intensified by the fact that, by their very numbers, they have limited their parents' ability to make other savings from their moderate wages.

The cost of raising the maximum benefit payment from twice the primary insurance benefit to three times that benefit will not be great. This maximum will seldom affect a family containing a retired worker, for it can apply only if he has a wife entitled to wife's benefits and more than one minor child, or if he has three minor children. Among families of survivor beneficiaries, only about 6 percent are large enough to receive more in benefits under the maximum of three times the primary benefit than under a maximum of twice the primary. This 6 percent, however, includes more than 20 percent of the survivor families in which children are entitled to benefits. The liberalization we propose would be extremely significant to the welfare of the relatively small number of families it would affect.

Under our proposals, in no case will any group of survivors receive more than 80 percent of the average monthly wage, unless

TABLE 3

MAXIMUM AMOUNTS OF BENEFITS PAYABLE UNDER THE PRESENT LAW\*  
AND UNDER ADVISORY COUNCIL'S PROPOSAL,† AT VARIOUS LEVELS  
OF AVERAGE MONTHLY WAGE, TO SURVIVOR FAMILIES  
CONSISTING OF A WIDOW AND 1 OR MORE CHILD BENEFICIARIES

Average Monthly Wage	Applicable Provisions	Primary Insur- ance Benefit	Maxi- mum Family Benefit	Benefit Amount Payable to				
				Widow	First Child	Second Child	Third Child	Fourth Child
\$50...	Present law.....	\$22.00	\$40.00	\$16.50	\$11.00	\$11.00	\$1.50	.....
	Advisory Council	25.00	40.00	18.75	18.75	2.50	.....	.....
\$75...	Present law.....	24.75	49.50	18.56	12.38	12.38	6.18	.....
	Advisory Council	37.50	60.00	28.13	28.13	3.74	.....	.....
\$100...	Present law.....	27.50	55.00	20.63	13.75	13.75	6.87	.....
	Advisory Council	41.25	80.00	30.94	30.94	18.12	.....	.....
\$125...	Present law.....	30.25	60.50	22.69	15.13	15.13	7.55	.....
	Advisory Council	45.00	100.00	33.75	33.75	22.50	10.00	.....
\$150...	Present law.....	33.00	66.00	24.75	16.50	16.50	8.25	.....
	Advisory Council	48.75	120.00	36.56	36.56	24.38	22.50	.....
\$200...	Present law.....	38.50	77.00	28.88	19.25	19.25	9.62	.....
	Advisory Council	56.25	160.00	42.19	42.19	28.13	28.13	\$19.36
\$225...	Present law.....	41.25	82.50	30.94	20.63	20.63	10.30	.....
	Advisory Council	60.00	180.00	45.00	45.00	30.00	30.00	30.00
\$250...	Present law.....	44.00	85.00	33.00	22.00	22.00	8.00	.....
	Advisory Council	63.75	191.25	47.81	47.81	31.88	31.88	31.87
\$300...	Advisory Council	71.25	213.75	53.44	53.44	35.63	35.63	35.61
\$350...	Advisory Council	78.75	236.25	59.06	59.06	39.38	39.38	39.37

\* It is assumed that the insured worker had 10 increment years. Maximum family benefit is least of:

(1) 80 percent of average monthly wage, or (2) 3 times the primary insurance benefit. Widow and first child each receive three-fourths of primary benefit. Each additional child receives one-half of primary benefit.

entitled to the minimum benefit, and when that average wage exceeds \$225, our proposed maximum of three times the primary insurance benefit will become effective and will reduce the total monthly benefits for the family below 80 percent of the average wage.

*18. The minimum primary insurance benefit payable should be raised to \$20.*

The present minimum primary benefit of \$10 is too small to serve any social purpose. If the coverage of the program is extended to include nearly all types of gainful employment, this minimum should be raised to \$20. With a \$20 minimum primary benefit a widow, parent, or the first child survivor beneficiary in a family would receive minimum monthly benefits of \$15, and a wife or any child beneficiary after the first would have a minimum monthly benefit of \$10.

The minimum benefit is necessarily limited by the previous standard of living of the lowest wage group covered by the program, for it seems undesirable to pay social insurance benefits which would give retired persons a higher income than they previously had, or enable them to maintain a higher standard of living than is possible for others in the community who are employed at work comparable to that in which the benefits are based. A social insurance system cannot appropriately attempt to correct, after retirement, the basic problems of low living standards stemming from inadequate wages and sporadic employment.

Taking account of the areas where living standards and costs are the lowest and the fact that, in general, retired persons need less money than those who are employed, \$20 for a single person and \$30 for a couple is probably as high a minimum as could reasonably be allowed at the present time. These amounts, of course, are hardly large enough to meet the full cost of subsistence in any part of the country and are far below the amount needed in most parts of the United States. Only a variable benefit related to previous wages and living standards on an individual basis can provide benefits which are significant for the higher-paid workers, without at the same time exceeding the previous earnings of some insured workers.

In a program in which the benefits represent a reasonable proportion of past wages, the minimum will be paid to very few persons, particularly if coverage is nearly universal. Even under the present method of computing benefits and the present limited coverage, persons at the minimum primary benefit levels a few decades hence would usually be married women who left covered

employment after becoming permanently insured or individuals whose covered employment was part-time or intermittent.

Under the benefit formula recommended by the Council (recommendation 14), those whose average monthly wage was at least \$40 would receive at least \$20 without operation of the minimum. Over a lifetime, nearly all persons would average wages of more than \$40 a month or would be dependent on persons who did. Consequently, only a few persons would have to have their computed benefit raised to the minimum of \$20. The minimum, however, would make a significant contribution toward the living expenses of the few beneficiaries who otherwise would receive a smaller amount, and would aid in promoting the program's objective of reducing old-age dependency to the extent that it is feasible for an insurance system to do so for short-term or very low paid workers.

The Council's recommendation on this point is conditioned on broad extension of coverage, because otherwise many persons would work for only short periods in covered employment and receive the relatively high minimum benefit. Workers who contribute regularly to a system of limited coverage should not be required to subsidize short-term workers to the extent which would result if the increased minimum were paid under limited coverage.

A \$20 minimum coupled with broad coverage would help provide a basic security at no significant additional costs and without destroying the range in benefits whereby an individual's equity in the system is related to the amount of wages he receives from covered employment.

*19. No retirement test (work clause) should be imposed on persons aged 70 or over. At lower ages, however, the benefits to which a beneficiary and his dependents are entitled for any month should be reduced by the amount in excess of \$35 which he earns from covered employment in that month. Benefits should be suspended for any month in which such earnings exceed \$35 but, each quarter, beneficiaries should receive the amount by which the suspended benefits exceeded earnings above the exemption.*

The larger the proportion of aged persons who find suitable employment, the greater the output of goods and services, and consequently the higher the standard of living in the community. In the opinion of the Advisory Council, accordingly, the work clause should not be designed to encourage persons to cease all gainful work. The chief purpose should be to prevent the payment of benefits to persons who continue working for wages at

or near the level of those earned during much of their working lives; such persons have not suffered the loss of earnings against which the system insures.

The Council recognizes that the great majority of retirements are involuntary. Most workers want to continue working after age 65 even though their earnings are small. The work clause should therefore be liberalized to encourage those who can earn moderate amounts which will contribute toward their support to do so without being entirely deprived of old-age benefits. The fact that opportunities to work in noncovered employment will be practically eliminated by extension of coverage is an additional reason for liberalization.

The present program calls for suspension of benefits for any month in which the beneficiary earns wages of \$15 or more in covered employment. When a primary beneficiary works, dependents' benefits are also suspended. We propose that monthly earnings of \$35 or less should be permitted without reduction of benefit income.

The present provision, or any work clause which requires suspension of benefits for earnings in excess of a specified amount, may in some instances mean that a beneficiary has a smaller total income when he works than when he remains unemployed or does a small amount of work. This will result whenever he earns more than the exempt amount but less than the sum of that amount and the total benefits to which he and his dependents are entitled.

The Council believes that beneficiaries should not have their total income reduced because of work. Otherwise some beneficiaries may refrain from taking jobs because the only opportunities available to them would pay an amount which would result in an income loss. Furthermore, beneficiaries who take jobs will run the risk of income loss if they are unable to continue working until they have earned more than the exempt amount plus their benefits. To prevent the possibility of such losses, we propose that the beneficiary should forego only as much of his benefits as the amount by which his earnings exceed the exemption of \$35 a month.

We recommend that the beneficiary earning more than \$35 in a month should be required to report to the Social Security Administration the amount of his wages in that month. The Social Security Administration should then suspend his benefit. After the Administration receives the employer's quarterly tax return, adjustments should be made if necessary. If the amounts reported by the beneficiary for the 3 months in the quarter agree reasonably with the total quarterly wages shown for him on the employer's return, payment should be made of as much of his monthly benefits



for the 3 months in question as exceeds the difference between his earnings in each of the 3 months and the exemption. Ordinarily, of course, a full-time worker will be getting wages high enough so that no adjustment need be made. This would be true if his earnings were more than the exempt amount plus his benefits. If the amounts reported by the beneficiary do not agree with his total quarterly wages shown on the employer's return and adjustments are necessary, the employer should be asked for a monthly breakdown of the reported wages, and adjustments would be made on the basis of the information furnished. In view of the annual reports of the self-employed, some modification would have to be made in the application of the work clause to them.

Full benefits should be paid to all beneficiaries who are aged 70 or over, regardless of their earnings. Many old-age insurance beneficiaries undoubtedly consider any work clause a hardship and restriction on their freedom of activity. In our opinion, the savings effected by a work clause for beneficiaries who are 70 years old or more would not be significant enough to outweigh the advantage of giving some recognition to the beneficiary's desire to receive benefits without qualification. The cost of eliminating the work clause at age 70 would be about one-third of the estimated cost of removing it for all beneficiaries. Obviously, however, not all the cost of eliminating the work clause at age 70 would be a net burden on the community. To the extent that beneficiaries would be encouraged to continue working, the elimination of the work clause would increase the output of goods and the utilization of the plant and equipment of industry.

The social-insurance system of the future will probably have to take into account, more than does the present one, both the need for the economic contribution of the aged and their desire to make that contribution. We suggest that the Federal Government establish a commission to study the broad problem of the aged in our society including employment opportunities and the adjustment of the aged to retirement. This study might well furnish the basis for additional changes in the retirement provision of the old-age and survivors insurance program.

20. *The minimum age at which women may qualify for old-age benefits (primary, wife's, widow's parent's) should be reduced to 60 years.*

Under the present program, 65 is the qualifying age for all aged beneficiaries—wives, widows, dependent parents, and retired workers. The Council recommends that the age requirement for women be reduced to 60.

Until a retired worker's wife reaches age 65, no wife's benefits are now payable. In most instances, the husband's retirement benefit and other family resources are inadequate to maintain the family. Surveys indicate that the proportion of beneficiary families with retirement income and other assets sufficient for a maintenance level of living is substantially less among those in which the wife is not entitled to a wife's benefit than among those in which she is so entitled. Although less than one-fifth of the married men who attain age 65 have a wife of the same age or older, more than half have a wife who has reached age 60. Since many workers do not retire until several years after attaining age 65, a reduction of the age requirement for wife's benefits to age 60 will permit the wives of about three-fourths of the married men who claim primary or retirement benefits to receive wife's benefits as soon as their husbands retire.

Women aged 60 or over find it practically impossible to get a job unless they have recently been employed. Aged widows and aged dependent mothers of deceased insured workers therefore should also be able to qualify for benefits at age 60. If the age requirement for women were reduced to 60 years, about two-fifths of the insured workers' widows without minor children in their care would be eligible for benefits immediately.

If the age requirement for wives, widows, and aged dependent mothers of insured workers is lowered to 60, the same qualifying age should also apply to women who become primary beneficiaries through their own covered employment. If insured women are not made eligible for retirement benefits at age 60, benefits would be payable at an earlier age, and thus for a longer life expectancy, to the wife, widow, or mother of an insured worker who had not herself contributed directly to the program, than to a woman worker who had perhaps paid contributions for many years.

*21. To help meet the special expenses of illness and death, a lump-sum benefit should be payable at the death of every insured worker even though monthly survivor benefits are payable. The maximum payment should be four times the primary insurance benefit rather than six times as at present.*

The present provision for lump-sum benefits, which allows for a payment only if no survivors are immediately eligible for monthly benefits, evidently developed primarily from the idea of guaranteeing some return for the contributions insured workers had paid. The lump sum would serve a more useful purpose than it now does if it were payable for all deceased insured workers, regardless of the monthly benefits that might also be paid at the same time.

Monthly benefits for survivors provide only a partial replace-

ment of the income earned by the deceased worker and are needed to meet current living expenses. No allowance is made in these monthly payments for such expenses as the cost of the last illness and burial. The need for a lump-sum death payment is therefore fully as great when monthly benefits are payable as when they are not. In fact, when survivors are immediately entitled to monthly benefits, the need for a lump-sum payment may be even greater than in other cases, since these survivors are persons who are presumed to have been currently dependent on the wages of the deceased worker.

The increase in the primary insurance benefit which the Council has recommended (recommendation 14) would automatically result in a substantial increase in the lump-sum payment if the present formula of six times the primary insurance benefit were retained for lump-sum payments. We do not recommend a general increase in the dollar amounts of the lump-sum payment and therefore believe that the formula should be reduced to four times the primary insurance benefit.

The lump sum should be payable, as at present, to a spouse if such spouse were living with the deceased insured worker at the time of his or her death. If no spouse survives, the payment should be made to the person equitably entitled to such payment on the basis of having paid the funeral expenses. In this event the amount should be limited to the funeral expenses, if such expenses were less than the maximum of four times the primary insurance benefit.

## RECOMMENDATIONS ON FINANCING

*Old-Age and Survivors Insurance.* Report to the Senate Committee on Finance from the Advisory Council on Social Security, 80th Cong., 2d Sess. Washington: Government Printing Office, 1948.

22. *The contribution rate should be increased to 1½ percent for employers and 1½ percent for employees at the same time that benefits are liberalized and coverage is extended. The next step-up in the contribution rate, to 2 percent on employer and 2 percent on employee, should be postponed until the 1½-percent rate plus interest on the investments of the trust fund*

*is insufficient to meet current benefit outlays and administrative costs.*

THERE ARE compelling reasons for an eventual Government contribution to the system, but the Council feels that it is unrealistic to decide now on the exact timing or proportion of that contribution. When the rate of 2 percent on employers and 2 percent on employees, plus interest on the investments of the trust fund, is insufficient to meet current outlays, the advisability of an immediate Government contribution should be considered.

The present rate of contributions of 1 percent payable by employers and 1 percent by employees has remained unchanged for more than 10 years. If benefits and eligibility requirements are liberalized as the Council recommends, the contribution rate should be raised to 1½ percent each. This increase is desirable to promote public understanding of the fact that, in the long run, a close relationship exists between the rate of contribution and the size of benefits. It is desirable also to permit spacing, more or less evenly, small increases in the rate of contributions as they rise to their ultimate level. It is also fair because, at present rates, contributions fall far short of covering the value of the benefit rights that workers are acquiring.

The step-up to 2 percent should be postponed until actually needed. The Council believes that the excess of income over outgo, inevitable in the early years of the program, should be kept as low as is consistent with the contributory character of the program. Even with the increase to 1½ percent, assets of the trust fund may rise for a few years at an annual rate of about \$2,000,000,000.

For the reasons given above, the Council believes that the first step-up is needed when the liberalized program becomes effective, but we wish to emphasize that building up the trust fund is not the purpose of our proposed increase in the contribution rate, and we therefore urge that additional increases in the rate be postponed. The increase in the trust fund is an incidental result of the contribution rates, the benefit rates, and the eligibility requirements that seem to us desirable on other grounds. Unlike private insurance, a social-insurance scheme backed by the taxing power of the Government does not need full reserves sufficient to cover all liabilities.

Some people fear that additions to the trust fund will have adverse effects on the economy. Whether the economic effects of additions to the trust fund are good or bad will depend on the general economic situation and on the fiscal policies of the Government. In any circumstances, an annual surplus for a few years of as much as

ment of the income earned by the deceased worker and are needed to meet current living expenses. No allowance is made in these monthly payments for such expenses as the cost of the last illness and burial. The need for a lump-sum death payment is therefore fully as great when monthly benefits are payable as when they are not. In fact, when survivors are immediately entitled to monthly benefits, the need for a lump-sum payment may be even greater than in other cases, since these survivors are persons who are presumed to have been currently dependent on the wages of the deceased worker.

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The lump sum should be payable, as at present, to a spouse if such spouse were living with the deceased insured worker at the time of his or her death. If no spouse survives, the payment should be made to the person equitably entitled to such payment on the basis of having paid the funeral expenses. In this event the amount should be limited to the funeral expenses, if such expenses were less than the maximum of four times the primary insurance benefit.

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THERE ARE compelling reasons for an eventual Government contribution to the system, but the Council feels that it is unrealistic to decide now on the exact timing or proportion of that contribution. When the rate of 2 percent on employers and 2 percent on employees, plus interest on the investments of the trust fund, is insufficient to meet current outlays, the advisability of an immediate Government contribution should be considered.

The present rate of contributions of 1 percent payable by employers and 1 percent by employees has remained unchanged for more than 10 years. If benefits and eligibility requirements are liberalized as the Council recommends, the contribution rate should be raised to 1½ percent each. This increase is desirable to promote public understanding of the fact that, in the long run, a close relationship exists between the rate of contribution and the size of benefits. It is desirable also to permit spacing, more or less evenly, small increases in the rate of contributions as they rise to their ultimate level. It is also fair because, at present rates, contributions fall far short of covering the value of the benefit rights that workers are acquiring.

The step-up to 2 percent should be postponed until actually needed. The Council believes that the excess of income over outgo, inevitable in the early years of the program, should be kept as low as is consistent with the contributory character of the program. Even with the increase to 1½ percent, assets of the trust fund may rise for a few years at an annual rate of about \$2,000,000,000.

For the reasons given above, the Council believes that the first step-up is needed when the liberalized program becomes effective, but we wish to emphasize that building up the trust fund is not the purpose of our proposed increase in the contribution rate, and we therefore urge that additional increases in the rate be postponed. The increase in the trust fund is an incidental result of the contribution rates, the benefit rates, and the eligibility requirements that seem to us desirable on other grounds. Unlike private insurance, a social-insurance scheme backed by the taxing power of the Government does not need full reserves sufficient to cover all liabilities.

Some people fear that additions to the trust fund will have adverse effects on the economy. Whether the economic effects of additions to the trust fund are good or bad will depend on the general economic situation and on the fiscal policies of the Government. In any circumstances, an annual surplus for a few years of as much as

\$2,000,000,000 would not, in our opinion, be unduly large or unmanageable; in fact, such a surplus would be small in comparison with the amounts involved in many recent financial operations of the Government. On the other hand, the Council sees no reason to increase this surplus even further by moving to the 2-percent rate before the demands of the system actually call for such an increase.

The Council believes that the Federal Government should participate in financing the old-age and survivors insurance system. A Government contribution would be a recognition of the interest of the Nation as a whole in the welfare of the aged and of widows and children. Such a contribution is particularly appropriate, in view of the relief to the general taxpayer which results from the substitution of social insurance for part of public assistance.

The old-age and survivors insurance program starts with an accrued liability resulting from the fact that, on retirement, the present members of the labor force will not have contributed toward their benefits over a full working lifetime. Furthermore, with the postponement of the full rate of contributions recommended above, even young people who enter the labor force during the next decade will not pay the full rate over a working lifetime. If the cost of this accrued liability is met from the contributions of workers and their employers alone, those who enter the system after the full rate is imposed will obviously have to pay with their employers more than is necessary to finance their own protection. In our opinion, the cost of financing the accrued liability should not be met solely from the pay-roll contributions of employers and employees. We believe that this burden would more properly be borne, at least in part, by the general revenues of the Government.

Old-age and survivors insurance benefits should be planned on the assumption that general taxation will eventually share more or less equally with employer and employee contributions in financing future benefit outlays and administrative costs. The timing and exact proportion of this contribution, however, cannot be decided finally now. They will depend in part on the other obligations of the Government and the relationship between such obligations and current income. We believe that a Government contribution should be considered when the 2-percent rate for employer and employee plus interest on the investments of the trust fund is insufficient to meet current costs. To increase the pay-roll contributions above the 2-percent rate before the introduction of a Government contribution might mean that the Government contribution would never reach one-third of eventual benefit outlays, since under our low-cost estimates the annual cost of the benefits never exceeds 6 percent

of pay roll even though it reaches 9.7 percent under the high estimate.

### The old-age and survivors insurance trust fund (Appendix A)

As stated in its recommendations, the Council does not favor a full reserve plan sufficient to cover all liabilities. Under a contributory system of old-age and survivors insurance, however, qualifying requirements—even though liberal—unavoidably result in lower benefit disbursements in the early years of operation than in the later years. If contributions in the early years were no more than sufficient to cover disbursements, they would be so small in relation to benefit rights currently being established that the system could scarcely be called contributory. For example, on a strictly current-cost basis, contribution rates at present could not be set above 0.3 of 1 percent of pay roll for employers and 0.3 of 1 percent of pay roll for employees. The contributory nature of the system, therefore, inevitably develops at least a limited reserve.

This reserve has been invested in United States Government securities, which, in the opinion of the Council, represent the proper form of investment for these funds. We do not agree with those who criticize this form of investment on the ground that the Government spends for general purposes the money received from the sale of securities to that fund. Actually such investment is as reasonable and proper as is the investment by life-insurance companies of their own reserve funds in Government securities. The fact that the Government uses the proceeds received from the sales of securities to pay the costs of the war and its other expenses is entirely legitimate. It no more implies mishandling of moneys received from the sale of securities to the trust fund than it does of the moneys received from the sale of United States securities to life-insurance companies, banks, or individuals.

The investment of the old-age and survivors insurance funds in Government securities does not mean that people have been or will be taxed twice for the same benefits, as has been charged. The following example illustrates this point: Suppose some year in the future the outgo under the old-age and survivors insurance system should exceed pay-roll tax receipts by \$100,000,000. If there were then \$5,000,000,000 of United States 2-percent bonds in the trust fund, they would produce interest amounting to \$100,000,000 a year. This interest would, of course, have to be raised by taxation. But suppose there were no bonds in the trust fund. In that event, \$100,000,000 to cover the deficit in the old-age and survivors insurance system would have to be raised by taxation; and, in addi-



tion, another \$100,000,000 would have to be raised by taxation to pay interest on \$5,000,000,000 of Government bonds owned by someone else. The bonds would be in other hands, because if the Government had not been able to borrow from the Old-Age and Survivors Insurance Trust Fund, it would have had to borrow the same amount from other sources. In other words, the ownership of the \$5,000,000,000 in bonds by the old-age and survivors insurance system would prevent the \$100,000,000 from having to be raised twice—quite the opposite from the “double taxation” that has been charged.

Under present conditions the Government is operating with a budget surplus and is not borrowing. The trustees of the Old-Age and Survivors Insurance Trust Fund, therefore, when they invest the excess income in Government securities, in effect cause Government debt to be transferred from private ownership to the Old-Age and Survivors Insurance Trust Fund. The same saving of the amount of the interest for the general taxpayer will occur in this instance as in the one described above.

The members of the Advisory Council are in unanimous agreement with the statement of the Advisory Council of 1938 to the effect that the present provisions regarding the investment of the moneys in the Old-Age and Survivors Insurance Trust Fund do not involve any misuse of these moneys or endanger the safety of the funds.

#### **Actuarial cost estimates for old-age and survivors insurance recommendations (Appendix B)**

Estimates of future costs of the old-age and survivors insurance system are affected by many factors that are difficult to determine; hence, assumptions may differ widely and yet be reasonable. Some of the factors concerning which assumptions must be made are indicated below.

##### **FACTORS IN ASSUMPTIONS**

#### *How many persons will reach age 65*

To determine how many persons may eventually qualify for retirement benefits, it is necessary to estimate the number of men and women who can be expected to attain age 65 each year. Such estimates involve assumptions as to birth, mortality, and net immigration rates. Although fairly reliable data on fertility and mortality over long periods are available, wide variations in the next half century are possible and may cause considerable change in the size

and age structure of the population. Immigration, although not recently significant, could become of great importance.

*How many will be eligible for benefits*

Next, the number of persons reaching age 65 who will be "insured" for benefits must be ascertained. Since insured status is based on the number and proportion of quarters in which covered workers have earnings of \$50 or more, such factors as wage levels, employment duration, unemployment—whether due to economic, health, or other conditions—labor mobility, and related matters must be taken into account, with special attention to variations by age and sex. Estimating the number of persons likely to be insured—or uninsured—at different periods, involves assumptions concerning wage and salary rates by age and sex, as well as the extent and steadiness of employment.

*How many will retire*

Having estimated how many persons will qualify for benefits, the next query is how many will actually receive them. Since the law specifies that benefits will be withheld or reduced when the beneficiary earns more than a stated amount, it is necessary to estimate how many beneficiaries will be affected, and how many will work continuously or intermittently after the minimum retirement age. The retirement rate will depend on such factors as the level of benefits, extent of private group and individual insurance, job prospects, and the current philosophy in regard to displacement of older by younger workers.

*How long will benefits be paid*

It is not enough to know how many persons will be placed on the benefit rolls; the duration of their benefit payments is equally significant. To estimate duration, mortality rates for men and women must be applied to each group entering beneficiary status to gauge the number who will die each year.

*How much will be paid as retirement benefits*

This basic inquiry primarily involves application of the benefit formula to the wage histories of those eligible for benefits. Benefits depend on the "average monthly wage," which in turn depends on total wages received over a period of time. Just as in estimating the number of persons with insured status, assumptions must be made concerning sustained versus sporadic employment, wages, and the level of employment.

*How much will be paid as supplementary and survivor benefits*

To estimate the cost of benefits to survivors and dependents of insured persons, many of the same factors applying to the worker must be considered, such as birth, mortality, retirement rates, and their interlocking effect. In addition, the same problem arises of estimating the number of insured workers and the amount of their primary benefits on which the survivor and supplementary benefits will be based. Because survivor benefits are terminated when certain changes in family and age status occur, assumptions have to be made concerning the marital and parental status of the insured group. Such factors as remarriage rates of widows, marriage rates of child beneficiaries, economic dependency of parents, and existence of specified surviving relatives must also be taken into account. The "work clause" affects the benefits of survivors and dependents as well as those of retired workers.

*Adjustments*

Lastly, there remain various adjustments affecting the number and size of benefits which arise from contingent features of the law, such as reduction or increase in the average size of benefits because of minimum and maximum provisions and eligibility for concurrent benefits of different types.

Among the many assumptions necessary for the cost estimates, the following were perhaps most important:

1. *Mortality*.—The low-cost estimates assume a continuation of mortality at the present levels, while the high-cost estimates assume that mortality will decrease in the future (or in other words, that longevity will increase).

2. *Employment*.—The estimates of future costs assume that the general level of employment will be about the same as during 1944–46. Corrections have been made, however, for the temporary war-time dislocations in the labor force. A "normal" age and sex distribution for the labor force has been assumed.

3. *Wage levels*.—With a \$3,000 maximum wage base, it is assumed that four-quarter male workers earn \$2,400 per year, while for women the corresponding figure is \$1,440. For persons working in less than four quarters, these averages were reduced in the proportions shown in actual wage records. With a maximum wage limit of \$4,200, these two figures for four-quarter workers become \$2,600 and \$1,450, respectively.

4. *Retirement rates*.—The old-age and survivors insurance program has been in effect too short a time to give much useful evidence as to the probable retirement rates of the future. Moreover,

the war has made the few years of experience with retirement rates under old-age and survivors insurance a poor basis for projection. Furthermore, the larger retirement benefits provided by the proposed plan, as contrasted with the relatively inadequate benefits under the present system, might cause more persons to retire voluntarily. Since little is really known on this subject, the estimates are based on two widely different assumptions so as to encompass a wide range of possibilities.

It is assumed under the low-cost estimates that under a mature program about 45 percent of the eligible men aged 65 to 69 would get benefits, while for women aged 60 to 69 about 70 percent of those eligible would get benefits (all eligible persons beyond age 70 would receive benefits regardless of work). For the high-cost estimate the corresponding figures are 60 percent for men and 80 percent for women. In the early years all these figures are materially lower, since more of those eligible have recently been in employment and would thus be more likely to continue at work.

*The estimates.*—The tables that follow summarize actuarial cost estimates for the expanded old-age and survivors insurance program recommended by the Advisory Council.

In Table 1, the benefit costs are in terms of percentage of pay roll for various future calendar years, starting in 1955 and running up to the "ultimate" year 2000, when benefit disbursements will more or less level off; "level premium" \* costs are also shown.

Table 2 gives comparable data in absolute dollar amounts. In both these tables the costs are shown as increases or decreases in the cost arising under the present program, taking successive account of each major change recommended by the Council. The order in which these various changes are considered determines in many instances how much of the increase in cost is attributed to a specific recommendation. For example, the increased cost arising from the revised work clause follows the estimates of cost changes resulting from extension of coverage, but precedes the estimated effect of the new benefit formula. Thus, the estimated cost of abolishing the retirement test for all beneficiaries aged 70 and over represents increases in benefit payments based on the present formula. If the cost effect of the new benefit formula had preceded the figures on the

\* The level-premium contribution rate is the rate which would support the system into perpetuity if collected from the first year. It is higher than the contribution rate which would be required to pay the benefits of any one generation of workers because it covers also the cost of the accrued liability resulting from the payment of full benefits to workers already middle-aged or older at the time the system goes into effect. In computing the level premium rate it is assumed that benefit payments and taxable pay rolls remain level after the year 2000 and that accumulated reserves earn interest at the rate of 2 percent.

effect of the proposed new work clause, the increase in cost arising from the new work clause would have been greater, since it would have been based on the payment of higher benefits to those aged 70 and over. On the other hand, considering the benefit formula first would result in showing the cost effect of the new benefit formula as smaller than it is shown in these tables because the present work clause would prevent the payment of benefits to many of those over age 70. The order in which the changes are considered does not, of course, affect the final or net cost of the recommendations.

Table 3 presents the estimated costs as a percentage of pay roll for each of the various categories of benefits under the proposed expanded plan, along with the "level premium" cost for each category. Table 4 gives the corresponding dollar figures.

Table 5 presents the estimated taxable pay rolls under the present coverage (with the \$3,000 maximum wage) and under the expanded coverage (with the \$4,200 maximum wage). These estimates are based on the employment and wage levels of 1944-46 which are somewhat below present levels but still represent a relatively high level of economic activity.

In Table 6 are estimates of the percentage of persons in various future years who will be fully insured when they attain age 65, both for the present limited coverage and for complete extension of coverage under the eligibility conditions recommended by the Council. Table 7 shows estimates of the percentage of all persons aged 65 and over who will be fully insured in various future years.

Table 8 presents the estimated operations of the trust fund under the expanded program recommended by the Advisory Council. The proposed program is assumed to become effective at the beginning of 1949, when the trust fund will probably amount to about \$10.5 billion. Further, it is assumed that the benefit disbursements in 1949 will bear the same relationship to the expanded covered pay roll as the benefit disbursements under the present system bear to the present limited-coverage pay roll. The effect of immediate changes in benefits paid (principally, the liberalized benefit formula and the reduction in the retirement age for women) is thus assumed to be relatively equal to the proportionate increase in pay roll (namely, about 60 percent). Thereafter, until 1955, the increase in disbursements will at first be gradual and then more rapid as workers in the newly covered groups acquire insured status.

The estimates of trust fund operations have been developed under the contribution schedule which most nearly approximates the Council's proposals, namely, a combined employer-employee rate of 2 percent until 1948, 3 percent in 1949-56, and 4 percent thereafter until the Government contribution has reached one-half

the revenue from the combined employer-employee contribution, at which point under the high-cost estimate further increases are assumed in the combined employer-employee rate. This contribution-rate schedule, in contrast with the present law (combined rate of 2 percent through 1949, 3 percent in 1950-51, and 4 percent thereafter), increases the rate immediately on establishment of the expanded program, but defers the next increase until 1957, which is about when disbursements may exceed income at the 3-percent combined rate (this is anticipated in 1959 under the low estimate and in 1955 under the high estimate).

The Council has recommended that the Government contribution be postponed until the income of the trust fund at the combined 4-percent contribution rate for employers and employees first falls short of meeting the outgo. The Government contribution will be of such amount as to maintain the trust fund at its highest point without any decrease thereafter. (disregarding any minor, short-range cyclical fluctuations). It is assumed that the Government contribution will not be allowed to exceed one-half the combined employer-employee contributions. Under the low-cost estimate the 4-percent employer-employee rate is sufficient to prevent the Government contribution from exceeding one-half, but under the high-cost estimate the rate would have to be increased to 5 percent in 1972-80, 6 percent in 1981-89, and 7 percent thereafter. These specific years are the ones which reflect the assumptions of the high-cost estimates. It is not expected, of course, that all these assumptions will turn out to be the correct ones and that the years specified will be the ones in which increases in rates necessarily have to be made.

Since both the low-cost and the high-cost estimates assume a high future level of economic activity, the pay rolls are substantially the same under the two estimates in the early years (see Table 5). Accordingly, there is little difference in the contribution income in the two estimates. The assumptions which affect benefits, however, have widely different effects even in the early years of the program. The range of error in the estimates, nevertheless, may be fully as great for contributions as it is for benefits.

The effect of the new eligibility conditions and the "new start" in computing the average monthly wage are particularly difficult to estimate during the early years of operation. The number of persons who will qualify and get benefits on the new basis is more uncertain when we are dealing only with older workers and the qualifying work period is relatively short. While an attempt has been made to allow for this very important factor, the costs shown here for 1955, and possibly for 1960, may, nonetheless, be overstatements.

Table 9 gives the results of an actuarial study to determine the hypothetical "current" experience under the plan recommended by the Advisory Council if that plan had been in effect long enough (say, for a century) to be relatively "mature"—that is, to have a relatively stable number of qualified beneficiaries.\*

While more precise data are available on many of the factors which enter into these estimates since they deal with the present or past rather than the future, it is still necessary to show some range in the figures because some factors are unknown; for example, the extent of retirement if the proposed benefits were available to all the current aged population.

Table 9 gives low and high estimates of the number of beneficiaries and benefit disbursements by type of benefit. In estimating the number of beneficiaries, account has been taken of past trends in employment, mortality, etc. As a result, the table shows relatively fewer female primary beneficiaries than there will be in the future if the upward trend in employment of women continues.

Under assumption A, the estimated benefit disbursements are assumed to be based on past trends in wages, which have been sharply upward during the past century. For the most part, the benefits paid currently would therefore reflect the lower wages of the past, hence the amounts involved are relatively low in terms of current wages and price levels. Thus, the average primary benefit would be about \$30–\$35, while an average on the basis of 1948 earning levels would be about \$50–\$55 or approximately 50 percent higher. Nevertheless, the average of the primary benefits on which some of the survivor benefits are based would be somewhat higher than \$30–\$35, because it would be related to the recent earnings of young workers who leave survivors eligible for widow's current and child survivor benefits.

Under assumption B, the average wage or benefit provisions of the program or both are assumed to have been continuously modified in such a way as to take full account of the increases which have occurred in wage levels and to provide benefits related at all times to current wage levels.

The total number of beneficiaries receiving monthly payments during an average month of 1948 under the assumptions of this study would be about 10.3–12.6 million. Among them, 3.4–4.1 million would be men aged 65 and over (representing 65–80 percent of

\* In a fully mature program the number of beneficiaries added to the rolls would equal the number dropped by death, remarriage, attainment of age 18, or similar reasons. The program could not be fully mature, however, until the population is also stable or mature—i.e., births equal deaths and age distributions are stable.

TABLE 1

ESTIMATED ANNUAL COST OF EXPANDED PROGRAM RECOMMENDED BY  
ADVISORY COUNCIL, FOR SPECIFIED YEARS, BY MAJOR CHANGES  
IN TERMS OF PERCENTAGE OF PAY ROLL

LOW-COST ESTIMATE \*

Calendar Year	Cost of Present Program	Increase in Cost Arising from—							Net Cost of Expanded Plan
		Extension of Coverage	Age 60 for Women	Revised Lump-Sum†	Revised Work Clause	Higher Rate for First Child‡	Additional Benefits in re Women§	New Benefit Formula	
1955.....	1.31	-0.34	0.11	.....	0.43	0.04	0.02	0.82	2.39
1960.....	1.75	-.28	.15	-0.01	.51	.06	.02	1.06	3.26
1970.....	2.56	-.28	.29	-.01	.62	.06	.02	1.20	4.46
1980.....	3.33	-.33	.42	-.01	.67	.07	.03	1.12	5.30
1990.....	4.02	-.47	.46	-.02	.71	.07	.03	1.03	5.83
2000.....	4.19	-.42	.44	-.02	.71	.07	.03	.87	5.87
Level premium¶	3.26	-.38	.36	-.01	.63	.06	.03	.95	4.90

HIGH-COST ESTIMATE \*

1955.....	1.87	-0.43	0.19	.....	0.29	0.04	0.01	1.14	3.11
1960.....	2.46	-.37	.28	-0.01	.35	.06	.02	1.28	4.07
1970.....	3.66	-.47	.47	-.01	.46	.06	.02	1.39	5.58
1980.....	5.18	-.72	.65	-.01	.57	.06	.02	1.37	7.12
1990.....	6.93	-1.14	.75	-.01	.68	.06	.02	1.34	8.63
2000.....	8.12	-1.32	.79	-.02	.78	.06	.02	1.27	9.70
Level premium¶	5.66	-.91	.60	-.01	.59	.06	.02	1.26	7.27

\* Based on assumption of continuation of employment and wage levels of 1944-46.

† Lump-sum death payment for all deaths but only in amount of 4 times primary benefit (rather than 6 times as at present).

‡ Including also higher rate for parent's benefit.

§ Supplementary and survivor monthly benefits in respect to insured women.

|| Including also revision in computation of average wage and higher limit on maximum annual wages counted toward benefits.

¶ Level premium contribution rate (based on 2 percent interest) for benefit payments after 1949 and into perpetuity, not taking into account accumulated funds.

the 5.1 million men aged 65 and over in the United States), while 5.2-6.2 million would be women aged 60 and over (representing 60-75 percent of the 8.5 million women aged 60 and over in the population). The aged who would not be receiving benefits would represent, for the most part, those still at work or those whose husbands were still working. There would also be some aged persons who failed to qualify because of lack of sufficient employment resulting from disability and other causes.



TABLE 2

ESTIMATED ANNUAL COST OF EXPANDED PROGRAM RECOMMENDED BY  
ADVISORY COUNCIL, FOR SPECIFIED YEARS, BY MAJOR CHANGES  
(IN MILLIONS OF DOLLARS)  
LOW-COST ESTIMATE \*

Calendar Year	Cost of Present Program	Increase in Cost Arising from—							Net Cost of Expanded Plan
		Extension of Coverage	Age 60 for Women	Revised Lump-Sum †	Revised Work Clause	Higher Rate for First Child ‡	Additional Benefits in re Women §	New Benefit Formula	
1955.....	\$1,046	\$173	\$138	.....	\$540	\$50	\$22	\$1,222	\$3,189
1960.....	1,469	441	195	—\$13	662	78	26	1,647	4,505
1970.....	2,421	772	406	—14	867	84	28	2,057	6,621
1980.....	3,474	965	621	—15	990	103	44	2,136	8,318
1990.....	4,509	1,066	722	—31	1,114	110	47	2,176	9,713
2000.....	5,072	1,227	736	—33	1,188	117	50	2,064	10,421

## HIGH-COST ESTIMATE \*

1955.....	\$1,482	\$323	\$238	.....	\$363	\$50	\$19	\$1,675	\$4,150
1960.....	2,062	677	366	—\$13	458	78	26	2,012	5,666
1970.....	3,442	1,056	662	—14	648	84	28	2,457	8,363
1980.....	5,191	1,312	947	—15	831	87	29	2,653	11,035
1990.....	7,125	1,498	1,116	—15	1,012	89	30	2,795	13,650
2000.....	8,463	1,711	1,182	—30	1,167	90	30	2,765	15,378

\* Based on assumption of continuation of employment and wage levels of 1944-46.

† Lump-sum death payment for all deaths but only in amount of 4 times primary benefit (rather than 6 times as at present).

‡ Including also higher rate for parent's benefit.

§ Supplementary and survivor monthly benefit in respect to insured women.

|| Including also revision in computation of average wage and higher limit on maximum annual wages counted toward benefits.

Under the assumption that benefits are based on the wages actually paid in the past, the total benefit disbursements in 1948 would range from 3.4 to 4.2 billion dollars, representing from 2.4 to 3.0 percent of current pay rolls which would be about \$140,000,000,000 \* if all occupations were covered by the program. On the other hand, under the assumption that benefits are always based on current wage levels, the disbursements would range from 5.7 to 6.9 billion dollars, or in other words from 4.1 to 4.9 percent of pay roll. These estimates are considerably lower than the estimates of

\* This figure is higher than those shown for expanded coverage in 1955, Table 5, appendix B, because the figures in Table 5 are based on the somewhat lower wage rates of 1944-46.

the ultimate cost of the proposed plan which is shown on table 4 to be from 5.9 to 9.7 percent of pay roll. The difference is explained largely by the increasing number of the aged in the population.

It should be noted that in all the estimates the coverage is assumed to be universal and to include railroad and all governmental employment, the goal the Council hopes will be attained.

TABLE 3

ESTIMATED ANNUAL COST OF EXPANDED PROGRAM RECOMMENDED BY  
ADVISORY COUNCIL, FOR SPECIFIED YEARS, BY TYPE OF BENEFIT,  
IN TERMS OF PERCENTAGE OF PAY ROLL

## LOW-COST ESTIMATE\*

<i>Calendar Year</i>	<i>Primary</i>	<i>Wife's †</i>	<i>Widow's †</i>	<i>Parent's</i>	<i>Child's</i>	<i>Widow's Current</i>	<i>Lump-sum Death</i>	<i>Total</i>
1955.....	1.24	0.28	0.29	0.03	0.34	0.11	0.10	2.39
1960.....	1.66	.36	.54	.04	.43	.13	.11	3.26
1970.....	2.27	.42	.98	.04	.47	.14	.14	4.46
1980.....	2.80	.43	1.24	.04	.49	.14	.15	5.30
1990.....	3.29	.41	1.29	.03	.50	.15	.16	5.83
2000.....	3.43	.36	1.22	.03	.51	.15	.17	5.87
Level premium ‡	2.75	.37	1.01	.03	.46	.14	.15	4.90

## HIGH-COST ESTIMATE\*

1955.....	1.85	0.39	0.30	0.05	0.31	0.12	0.09	3.11
1960.....	2.42	.48	.54	.07	.34	.13	.10	4.07
1970.....	3.43	.59	.95	.08	.30	.11	.12	5.58
1980.....	4.58	.71	1.24	.09	.27	.10	.14	7.12
1990.....	5.89	.79	1.37	.08	.24	.09	.16	8.63
2000.....	6.89	.84	1.41	.08	.22	.09	.18	9.70
Level premium ‡	4.92	.69	1.08	.08	.26	.10	.14	7.27

\* Based on assumption of continuation of employment and wage levels of 1944-46.

† Including the relatively negligible amount of husband's and widower's benefits.

‡ Level premium contribution rate (based on 2 percent interest) for benefit payments after 1949 and in perpetuity, not taking into account accumulated funds.

TABLE 4

ESTIMATED ANNUAL COST OF EXPANDED PROGRAM RECOMMENDED BY  
ADVISORY COUNCIL, FOR SPECIFIED YEARS, BY TYPE OF BENEFIT  
(IN MILLIONS OF DOLLARS)

## LOW-COST ESTIMATE\*

<i>Calendar Year</i>	<i>Primary</i>	<i>Wife's †</i>	<i>Widow's †</i>	<i>Parent's</i>	<i>Child's</i>	<i>Widow's Current</i>	<i>Lump-sum Death</i>	<i>Total</i>
1955.....	\$1,657	\$378	\$383	\$41	\$456	\$144	\$130	\$3,189
1960.....	2,291	500	739	54	588	178	155	4,505
1970.....	3,372	623	1,451	61	704	207	203	6,621
1980.....	4,400	679	1,944	62	771	225	237	8,318
1990.....	5,484	675	2,144	57	841	243	269	9,713
2000.....	6,099	637	2,162	49	910	265	299	10,421

## HIGH-COST ESTIMATE\*

<i>Calendar Year</i>	<i>Primary</i>	<i>Wife's †</i>	<i>Widow's †</i>	<i>Parent's</i>	<i>Child's</i>	<i>Widow's Current</i>	<i>Lump-sum Death</i>	<i>Total</i>
1955.....	\$2,468	\$517	\$400	\$68	\$421	\$154	\$122	\$4,150
1960.....	3,359	671	745	97	479	176	139	5,666
1970.....	5,134	880	1,417	126	455	171	180	8,363
1980.....	7,094	1,101	1,920	137	413	158	212	11,035
1990.....	9,325	1,253	2,162	132	379	149	250	13,650
2000.....	10,915	1,333	2,236	127	341	142	284	15,378

\* Based on assumption of continuation of employment and wage levels of 1944-46.

† Including the relatively negligible amount of husband's and widower's benefits.

TABLE 5

ESTIMATED TAXABLE PAY ROLLS UNDER PRESENT COVERAGE AND  
UNDER EXPANDED COVERAGE (IN BILLIONS OF DOLLARS)

<i>Calendar Year</i>	<i>Present Coverage*</i>		<i>Expanded Coverage†</i>	
	<i>Low-cost Estimate</i>	<i>High-cost Estimate</i>	<i>Low-cost Estimate</i>	<i>High-cost Estimate</i>
1955.....	\$80	\$75	\$134	\$133
1960.....	84	80	138	139
1970.....	95	91	149	150
1980.....	104	98	157	155
1990.....	112	102	167	158
2000.....	121	104	178	158

\* Based on \$3,000 maximum creditable wage.

† Based on \$4,200 maximum creditable wage.

TABLE 6

ESTIMATED PERCENTAGE OF PERSONS ATTAINING AGE 65 IN VARIOUS  
FUTURE YEARS WHO WILL BE FULLY INSURED, IF  
HIGH EMPLOYMENT CONDITIONS PREVAIL

<i>Calendar Year</i>	<i>Complete Extension of Coverage</i>		<i>Present Coverage</i>	
	<i>Men</i>	<i>Women</i>	<i>Men</i>	<i>Women</i>
1955.....	66-74	12-17	46-52	8-11
1960.....	74-84	16-23	50-58	10-14
1970.....	81-91	22-31	61-71	15-20
1980.....	84-93	30-38	72-82	24-32
1990.....	86-96	43-52	74-84	36-46
2000.....	88-96	50-60	74-84	40-50

TABLE 7

ESTIMATED PERCENTAGE OF PERSONS AGED 65 AND OVER  
IN THE POPULATION OF VARIOUS FUTURE YEARS WHO WILL BE  
FULLY INSURED, IF HIGH EMPLOYMENT CONDITIONS PREVAIL

<i>Calendar Year</i>	<i>Complete Extension of Coverage</i>		<i>Present Coverage</i>	
	<i>Men</i>	<i>Women</i>	<i>Men</i>	<i>Women</i>
1955.....	57-66	10-13	39-44	6-7
1960.....	69-81	13-17	44-49	7-10
1970.....	76-86	17-25	54-62	10-14
1980.....	81-91	23-31	64-73	16-22
1990.....	84-94	33-40	72-81	27-34
2000.....	86-95	43-51	74-84	35-43

TABLE 8

ESTIMATES RELATING TO SIZE OF TRUST FUND UNDER EXPANDED PROGRAM  
RECOMMENDED BY ADVISORY COUNCIL (IN MILLIONS OF DOLLARS)

Calendar Year	Contributions		Benefit Payments	Administrative Expenses	Interest † on Fund	Increase in Fund	Fund at End of Year
	Employer-employee*	Government					
LOW-COST ESTIMATE							
1955.....	\$3,833	.....	\$3,189	\$87	\$451	\$1,008	\$23,276
1960.....	5,279	.....	4,505	109	581	1,246	29,950
1970.....	5,683	\$419	6,621	146	665	0	33,645
1980.....	6,003	1,825	8,318	175	665	0	33,645
1990.....	6,370	2,877	9,713	199	665	0	33,645
2000.....	6,792	3,177	10,421	213	665	0	33,645
HIGH-COST ESTIMATE							
1955.....	\$3,823	.....	\$4,150	\$128	\$338	†-\$117	\$16,999
1960.....	5,318	\$163	5,666	159	344	0	17,362
1970.....	5,726	2,506	8,363	213	344	0	17,362
1980.....	7,408	3,548	11,035	265	344	0	17,362
1990.....	10,209	3,413	13,650	316	344	0	17,362
2000.....	10,606	4,777	15,378	349	344	0	17,362

\* Joint contribution schedule assumed is as follows: Low-cost estimate, 3 percent for 1949-56 and 4 percent thereafter. High-cost estimate, 3 percent for 1949-56; 4 percent for 1957-71; 5 percent for 1972-80; 6 percent for 1981-89; and 7 percent thereafter.

† Fund reaches a peak in 1954 and then declines for 2 years, but thereafter increases to another peak in 1959.

‡ Interest is figured at 2 percent on average balance in fund during year but is payable at end of year. After fund reaches maximum size the interest income is slightly less than 2 percent of the balance at the end of the year as shown in the last column, since the fund decreases slightly during the year. The interest payable at the end of the year brings it back to the level shown.

TABLE 9

ESTIMATED BENEFICIARIES AND DISBURSEMENTS IN 1948 UNDER  
EXPANDED PROGRAM RECOMMENDED BY ADVISORY COUNCIL, IF THE  
PLAN HAD BEEN IN EFFECT FOR A CENTURY, UNDER TWO ASSUMPTIONS\*

Type of Benefit	Number of Beneficiaries (in Thousands)		Benefit Disbursements† (in Millions)			
			Assumption A		Assumption B	
	Low	High	Low	High	Low	High
Total.....			\$3,400	\$4,160	\$5,720	\$6,930
Primary.....	4,780	6,060	1,820	2,290	3,050	3,810
Wife's.....	1,220	1,280	250	260	430	450
Widow's.....	2,430	2,650	660	710	1,270	1,380
Parent's.....	100	270	20	50	30	100
Widow's current..	330	420	120	160	170	220
Child's.....	1,470	1,940	430	570	590	780
Lump-sum death..	830	930	100	120	180	190

\* Benefit-disbursement estimates are shown on the basis of 2 different assumptions:

A. Benefits determined under average wage provisions and benefit formula proposed by Council using estimates of wages actually paid over the last 100 years.

B. Benefits determined under average wage and benefit provisions continuously revised so that benefits are related to current wage levels.

† Benefit disbursements in percentage of pay rolls would be as follows:

Assumption A:		Assumption B:	
Low.....	2.4	Low.....	4.1
High.....	3.0	High.....	4.9

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## CHAPTER VI

# MEDICAL CARE AND HEALTH INSURANCE

"To recommend that our own country again experiment with discredited methods of voluntary insurance is simply to ignore all that has been learned by costly experience in many other countries as well as in our own. . . . if we must adopt in this country either of the methods tried out in Europe, the sensible and logical plan would be to adopt the method to which European countries have come through experience, that is, a compulsory plan under governmental control. . . . The objections to compulsory health insurance are almost as compelling to this minority group as are those to voluntary insurance."

*Minority Report Number One in MEDICAL CARE FOR THE AMERICAN PEOPLE, The Final Report of the Committee on the Costs of Medical Care, Chicago, 1932, pp. 164-5.*

"The time is now ripe for another great advance, . . . once the whole process of insurance becomes unified, compulsory and national. . . . 'bringing the magic of averages to the rescue of the millions,' . . . for all classes, for all purposes, from the cradle to the grave."

*Winston Churchill, Radio Broadcast, March 21, 1943.*

## INTRODUCTION

INSURANCE AGAINST medical costs was one of the earliest forms of social insurance established in foreign countries, and today, it is undoubtedly the most prevalent form of social insurance in operation in the world. Yet, of the major industrial countries of the world, only the United States and Canada do not have a system of compulsory health insurance or nationwide comprehensive public medical care.

Governmental responsibility for medical care is not, however, new in the United States. The health functions of local and state governments go back to the very beginning of the



country. The Federal government provides hospitalization and other types of medical care for seamen, veterans, Indians, members of the armed forces, and certain other groups. The various compulsory state and Federal workmen's accident compensation laws, in effect, are compulsory health insurance laws limited to injuries and diseases arising out of industrial employment.

In earlier times sickness and good health were considered the primary, if not the exclusive, responsibility of the individual and his family and, in a very limited degree, of local and state governments. With new scientific discoveries, industrialization of the economy, the concentration of populations in urban areas, and similar developments, there arose a growing concern with health matters among workers and their families as well as among numerous professional groups, such as doctors, social workers, and economists. Fear of dependence upon charity or relatives during periods of prolonged illness has been a major factor in drawing public attention to problems of health insurance. Every public opinion poll taken in recent years has shown an overwhelming majority interested in adequate medical care and in the prepayment of costs for such care.

Although there is great interest in these problems of health in the United States, the methods to be adopted for dealing with the problems are still highly controversial. In view of this fact, some common understanding of the terms and ideas is essential to proper understanding of the subject.

Health insurance in other countries usually covers both medical services and cash payments for wage loss due to sickness or disability. In the United States, however, these two aspects of a health program have been considered separately. Consequently, health insurance customarily applies only to medical services or medical costs whereas the term "disability insurance" applies to the cash payments for wage loss. Undoubtedly, the reason for this separate consideration has been the fact that organized medicine has vigorously opposed compulsory insurance with respect to medical services or costs and has not opposed compulsory insurance with respect to disability.

In public discussion health insurance is frequently confused

with socialized medicine. Socialized or state medicine, however, is usually distinguished from health insurance in that, under the former plan, doctors are employed by the government on a full-time salaried basis. Medical care for veterans in veterans' hospitals, or state or local medical care for the tubercular or the insane can be considered as socialized medicine. In reality, medical care has always had a social or socialized aspect because of the public responsibility for such care for some groups and the public employment of doctors and other professional persons in public hospitals. The major issues today revolve around whether medical care shall be guaranteed to all persons in the community as a matter of right and whether in doing so, either through compulsory insurance or otherwise, the conditions of selection and remuneration of physicians and other medical personnel will be so modified that the change will become basic in medical practice.

One or two countries already have in operation, and others are contemplating putting in operation, a system of socialized or state medicine. A more proper term would be "public medical care," a parallel to the use of the term "public education," since there is much similarity in the basic principles of both such services. Although the U.S.S.R. is usually considered as the outstanding example of such public medical care, New Zealand, Australia, Chile, and Great Britain have inaugurated programs combining, in various degrees, compulsory health insurance and public medical care.

Nearly 8 million persons are disabled on any given day because of sickness and disability, with about half the cases lasting six months or more. Many more persons suffer from illness or defects which lower their working capacity. Over 90 percent of the disability is caused by nonindustrial sickness or accident. More than 1 person in 5 in the United States has some chronic disease, orthopedic impairment, or serious defect of hearing or vision.

Before World War II total annual expenditures for medical care in the United States were estimated at approximately \$4 billion. The figure is nearly twice as much at the present time.

About three-fourths of the prewar expenditures were made by the patients and their families. Only about 5 percent was spent by industry and philanthropy. The remaining 20 percent was expended by government—Federal, state, and local—exclusive of the cost of medical care for the military services.

The amounts spent by individuals and families represents, on the average, 4 to 5 percent of consumer incomes. Families in the lowest income groups spend somewhat more than the average. But such average figures are misleading in individual cases. Individually, there is uncertainty as to the magnitude of the cost that will fall upon the individual or a family. In any year the actual costs of medical care fall unevenly upon a small group of people.

The basic problems which are of general public concern in the field of health arise from the various barriers to adequate medical care which now exist. Although there are differences of opinion as to the extent of the unmet medical needs, because of the barriers which exist, there is general acceptance of the fact that there are important unmet medical needs. Numerous statistical studies have shown that among the poor, sickness comes oftener and lasts longer and death comes earlier than in the homes of the well-to-do. Many families have to borrow from lending agencies, or friends, or relatives to pay for medical care; but not all families are able to borrow. As a consequence, many bills remain unpaid. Studies before the war showed that, on the average, doctors fail to collect a fifth to a third of the value of their bills each year.

In addition, many people put off going to a doctor because of the cost. According to several public opinion polls, from 30, to over 40 percent of the American people have put off going to a doctor because of the cost.

The shortage and maldistribution of medical personnel and facilities has a tremendous effect upon the provision of medical care. The combination of low-income families and inadequate facilities make it difficult for many persons to receive any medical care at all. Even persons with incomes large enough to

pay for their medical care needs are handicapped by the lack of adequate facilities in their localities.

For the most part, physicians, hospitals, and other auxiliary personnel are concentrated in centers of wealth. Good medical care depends upon the availability of all of these resources, but especially upon the availability of hospitals and health-center facilities. There are many communities, especially in rural sections, where such facilities are wholly inadequate or entirely lacking.

The best known of the nonindustrial prepayment plans are the Blue Cross plans which insure against the cost of hospitalization. Prepayment medical care plans also have been organized and established under the auspices of private group clinics, consumer groups, government agencies, and industry.

Recently medical society plans have increased considerably, no doubt in part spurred by Congressional consideration of compulsory social insurance. Medical society plans combine prepayment with individual practice. They are characterized further by open-panel practice, fee for service, and limitation of services.

Voluntary prepayment plans have been very valuable in their contributions to those whom they serve and, to the country, in the useful experience they have accumulated. However, many are available only to special local groups and limit membership to low-income groups; few provide comprehensive medical services.

To a limited extent insurance against the costs and losses of sickness has been distributed through commercial insurance companies, fraternal societies, union and other sick-benefit associations, and business concerns. Primarily, contracts under this type of insurance provide for specified periodic payments during disability; when the insured requires medical and surgical care, etc., specified and limited payments are also made available. The volume of such insurance increased considerably during recent years, but even so, the total payments both for wage loss and medical indemnity did not exceed \$250,000,000 in 1944. Administrative costs of selling this type of

insurance are very high. Actual payments to beneficiaries represent only 55 cents on each dollar of premium.

Although the American Medical Association was critical of voluntary health insurance proposals for many years, it has now gone on record in favor of the principle of voluntary health insurance. There is great interest in the establishment of voluntary plans and it is exceedingly important to watch this development and see how it actually works under changing conditions. One of the very important issues is whether such voluntary plans will be under the complete control of the medical profession or whether the interest of the consumers of medical care will be represented in the over-all policy-making control of the voluntary plans. The extent to which such voluntary plans can meet such problems as those presented by the low-income groups which are unable to pay for the full cost of medical care, persons who change jobs, and the coordination of preventive health services are just a few of the problems which must be watched. Finally, the question of how voluntary plans can be meshed in with any compulsory national plan is also an important question.

These and many other questions relating to the quality of medical care and remuneration of medical personnel are touched on in the selections found in this chapter.

## *THE PROBLEM OF MEDICAL CARE*

A Statement Agreed to by the  
Agenda Committee of the Medical  
Care Section, National  
Health Assembly, Washington,  
May, 1948.

**A**MERICA'S MEDICINE is probably the best in the world, but its benefits are not equally available to our people. Judged by average expectation of life and by mortality rates, this country is one of the healthiest nations in the world, but millions of our people fail to receive adequate health care. Our health resources are

great, but we are not using them as effectively as we could to prevent illness and disability and to save lives.

Our physicians are probably better trained, on the average, than those of any other country and are more numerous in relation to our population than in any other country. But, their distribution is such that many parts of our country have insufficient medical personnel. Our hospitals, by and large, are the envy of the world, but here too large areas of our country simply have no such facilities. In medical research, in our contributions to the stream of medical knowledge, this country's position is preeminent, but our people are not receiving all the benefits of these scientific advances. The well to do in our large cities probably receive a quality and quantity of medical service which is unequalled; by contrast, others, particularly in rural areas, frequently receive medical care which is deficient in both quality and quantity.

### Contrasts in medical care \* available

The contrasts between the light and dark in the American medical scene are shown in comparisons among the States and among the various economic levels of the population. Thus the people of the population. Thus the people of New York State receive an average of 1.46 days of care in general hospitals per person per year, whereas those in Mississippi receive less than one-third as much—.40 days per person per year. In Massachusetts 95.3 percent of all births are attended by a physician in a hospital and virtually all of the remaining 4.7 percent are attended by a physician outside of a hospital. However, in South Carolina, only 41.2 percent of all births take place in hospitals, 24.4 percent are attended by a physician outside of a hospital, and 34.4 are attended by a midwife or other unspecified attendant. Among the colored population of that state, only 11 percent of all women in childbirth are attended by a physician in a hospital, another 18.3 percent are attended by a physician outside of a hospital and 70.7 percent of all births receive a midwife's care. These differences in care received are undoubtedly related to the fact that in Massachusetts the maternal mortality rate is 1.8 deaths per 1,000 live births, whereas in South Carolina it is 3.7—and among the white in that state 2.0 and among the colored 5.8.

The infant mortality rate in the nation as a whole in 1946 was 39.8 per 1,000 live births. In Connecticut it was 30.7, but in New

\* The term medical care is used in a broad sense and includes the services of physicians, dentists, nurses, hospitals and the provision of drugs, orthopedic appliances, eyeglasses, etc.

Mexico it was 89.1. Had the Connecticut rate obtained throughout the country, thousands of infants would have been saved in that year alone. Among whites in the country as a whole the infant death rate in 1944 was 36.9 per 1,000; among Negroes 59.3.

Differences in the quantity of health facilities and health service personnel among the various States naturally indicate, in a rough way, differences in the availability of health services to the populations involved. New York State has 5.3 general hospital beds (exclusive of beds in federal hospitals) per 1,000 of its population; Mississippi has only 1.8 such beds. New York State in 1940 had one physician for every 597 persons; Mississippi one for every 1,784. New York State in the same year had one dentist for every 1,321 persons in its population; Mississippi, one dentist for every 5,250 persons. New York State in 1941 had one active registered nurse for each 698 persons, Mississippi one such nurse for each 2,143 persons.

### Differences in economic status

These differences among the States are, of course, due in the main to differences in average economic well-being. When one ranks the States according to per capita income with the State of highest per capita income at the top and the State of lowest per capita income at the bottom, one finds among the well-to-do States relatively abundant hospital facilities, and a high number of days of hospitalization per capita, large numbers of physicians, dentists and nurses in proportion to the population, a high percentage of births occurring in hospitals, and low maternal and infant mortality rates. As average per capita income declines, then there is a decrease in hospital facilities and in days of hospital care, in the supply of health personnel in proportion to the population, in the percentage of births attended in hospitals, and an increase in maternal and infant mortality rates.

In a similar manner within States and communities there are differences in the volume of medical care received by groups of different economic status—those at the top of the income scale receiving the most, those with lowest incomes (except where public or charitable care is available) the least. This is not because those of low income have less illness and therefore less need—most studies show, on the contrary, that on the average they suffer more sickness and disability—but because, in general, they have less money to spend for medical care.†

† Thus the studies of the Committee on the Costs of Medical Care showed, that in 1928–31, families with incomes of less than \$1,200 a year received 1.9 physicians' home, office and clinic calls per person per year, as against 4.7 such

The contrast between the services received by the low and high income groups would be greater than it is were it not for the volume of free service given by physicians and hospitals. Indeed in certain large cities which make free hospital care readily available to those with low incomes, the latter frequently receive more days of hospital care than those with higher incomes, who are ineligible for free care.

The Negro population tends, in general, to be at the bottom of the economic ladder and to receive care which is least adequate in terms of both quality and quantity. This is undoubtedly one of the important causes of the higher mortality rates among this racial group. In 1940 the death rate, corrected for differences in age composition, for the country was 8.2 per 1,000 for whites and 14.0 for Negroes, a mortality rate 71 percent higher than the white. In 1940 the life expectation of Negroes at birth was from 10 to 20 percent less than that of the whites, the expectancy being for males 52 years among Negroes and 63 years among whites, and for females 56 years among Negroes and 67 years among whites.

No matter how well the health record of this country compares with that of other nations or with our own past, it is inadequate as long as the potentialities of our medical resources are not available to our people, as long as our people are not getting all the service and care which the medical profession can render. It is evident that if the high standards of health care available to the population of some states were available to the entire population of the country, many lives would be saved. It is estimated, for example, that with our present knowledge at least one-third of the deaths from cancer are preventable if those afflicted had received prompt diagnosis and care.

Various studies indicate in certain population groups the presence of neglected illness or conditions impairing health. Thus the New York Academy of Medicine report, *Medicine in the Changing Order*, Commonwealth Fund, 1947, states: (p. 39)

But mortality statistics tell only part of the story. There is a vast amount of illness which, while it does not lead directly to death, has far reaching and immeasurable effects on individuals, families and social groups. No one can gauge the suffering and anxiety caused by sickness. A number of attempts have been made to establish just how much and

calls per person per year among families with incomes of \$10,000 or more. Similarly the proportions of persons having dental care in a year ranged from 117 per 1,000 persons in the lower income group to 622 per 1,000 in the \$10,000 and over group. The volume of hospital care was .9 days per person per year for the under \$1,200 group; it dropped to .7 days in the \$1,200 to \$2,000 income group, and rose to 1.2 days per capita in the \$10,000 and over income group.



what kinds of illness and physical disabilities prevail among the population of the United States at any given time. Much of the data yielded by these efforts is of uncertain value. The induction examinations during World War II did reveal however that close to a third of those examined were unfit for military service because of physical and mental deficiency and disease. Even granting that the examination standards were high and that some of those unfit for military service may yet be fit for civil life, the residual facts still constitute a serious charge against our national well-being. There are evidently many among our people who are below par and whose condition would be improved by raising their standard of living and by making available to them more and better medical services.

### **The goal and the problem**

The goal which a democratic nation implicitly accepts is that there should be equal opportunities for health, that all those services which are necessary for the prevention of illness, the cure and relief of sickness and the promotion of a high level of positive physical and mental health should be available to all our people. The problem of medical care—whether this be considered as a single social and economic problem or a bundle of related problems—is that these services are not now so available, and that given our present medical resources—our physicians, dentists and other trained health personnel, our hospitals and other facilities, the total amounts of money currently spent for medical care and the even larger amounts we could afford to spend—we, as a nation, are not doing as well as could be done in using these resources to bring adequate care to the population.

### **Factors involved**

Why is it that some of our population does not receive adequate care? There are various factors involved, among the most important of which are the following: (a) the increased expensiveness of modern medical care; (b) the irregular and unpredictable incidence of medical costs when these costs are paid by the individual on a fee-for-service basis; (c) the low incomes of many in the population; (d) the lack of medical personnel and facilities in various areas; (e) need for public understanding of the value of medical care, including preventive services; (f) the existence of community discriminatory practices affecting minority groups; (g) insufficient coordination of action among the personnel and facilities providing service.

### The increased expensiveness of modern medical care

There was a time when medical care, to all intents and purposes, consisted of the ministrations of a physician who could carry all that he had for diagnosis and treatment in a small bag. The modern physician is the product of a long and expensive training. His own services are supplemented by auxiliaries—the nurse, the technician, the medical social worker. He needs expensive equipment in diagnosis and therapy. The modern, wonderful but very costly hospital has developed. Modern dentists also require extensive training and costly equipment. All these and other changes resulting from advances in medical knowledge have greatly increased the effectiveness of medical care, but at the same time they have greatly increased the cost of that care.

The report, *Medicine and the Changing Order*, puts the situation well: (p. 25)

But as medicine and surgery progressed, the whole situation changed. The increased cost of care made it difficult for the poor to afford the expert attention now available. The public and the profession became enmeshed in a distressing and paradoxical situation. As the competence of the profession increased, and as the public learned to appreciate this and to desire its services, the costs of medical services increased until they were beyond the resources of many.

The mounting costs of medical practice confront the public in the shape of fees charged by physicians, hospitals, laboratories, and the like. But the origins of the costs are essentially those very precise, involved and expert procedures which made modern medicine so widely desirable and effective. The problem of how to reduce the one and retain the other, how to make medical care widely available without losing its effective qualities, is the core of the current problem in medicine . . .

### Uncertainty of medical expenses

For the individual, the coming of illness is, in general, unpredictable. In a given year an individual may have no illness or he may have one or several illnesses of varying degrees of severity, but as to all of this he cannot tell in advance. It follows that the medical needs of the individual are in general irregular and unpredictable. Similarly in the absence of prepayment of the costs of medical attention, such costs are unpredictable.

In any given year among any given group of families of a certain income level, a majority of the families will have no really serious or expensive illness and their medical costs will be below the average for the entire group of families. At the other extreme there will be a few families who will have one or more serious illnesses en-

tailoring heavy expense for medical care. The medical charges incurred by these families will amount to a considerable fraction of their entire annual income, and will constitute a very sizable proportion of the total costs incurred by the entire group of families.‡

The cost of necessary medical attention in a severe prolonged illness may well amount to more than a family's entire annual income. Hospital bills in a single illness of \$2,000 or \$3,000 are by no means unknown. A severe illness requiring 30 days of hospital care might well result in a hospital bill of, say, \$500. Add to this charges for the attending physician or surgeon, and possible costs for special nursing and drugs, and the total bill for a single illness may well amount to \$1,000.

It is obvious that many families cannot meet costs such as these, and that such costs will represent a severe financial blow to all except the very well to do.

The situation is bad alike for those receiving and those providing care. To virtually everyone the possibility of heavy expense for medical care is a source of insecurity. The payment of hospital or doctor's bills frequently requires people to draw upon past savings, if they have them, or to go into debt.§ (Various studies of the small loan business show that payment of hospital and medical bills is the chief reason why people take out these loans.) Frequently people are unable to pay for service and must ask for charity care or go without where they cannot get or will not ask for such care. All of this means that frequently physicians and hospitals are prevented by economic barriers from rendering the necessary services they would like to give, and that the economic basis of their services is less broad and stable than it should be.

¶ The situation obviously requires the development of arrange-

‡ For example, the 1928-31 survey of the Committee on the Costs of Medical Care showed that among families with incomes of \$2,000 to \$3,000, 70.6 percent incurred medical charges in a year of less than \$100. Another 23.4 percent of the families had charges of between \$100 and \$300. Then 6 percent of the families had charges of over \$300 (and ranging up to over \$1,000). The total charges incurred by this last group of families amounted to 31 percent of the charges incurred by the entire group (Bureau of Research and Statistics, Social Security Administration, *Medical Care and Costs in Relation to Family Income*, Bureau Memorandum No. 51, May, 1947, Table 142.)

§ Many families have no savings and some have savings of only small amount. A study by the Federal Reserve Board showed that in early 1947, 24 percent of all spending units (separate individuals and families) had no liquid assets, 26 percent had from \$1 to \$500; 28 percent had from \$500 to \$2,000; 14 percent from \$2,000 to \$5,000 and 8 percent had \$5,000 and over. Among those with incomes under \$1,000, 51 percent had no liquid assets, and an additional 27 percent had assets of from \$1 to \$500. (Federal Reserve Bulletin, *Survey of Consumer Finances*, July, 1947, p. 797.)

ments whereby people may prepay the costs of medical attention by some form of advance budgeting. The desire of the population for such arrangements is seen in the avidity with which people have enrolled in prepayment plans or taken out commercial insurance against hospital and surgical costs. Fifteen years ago few people were covered by plans or insurance of this kind. Within this space of time over 48,000,000 persons have been enrolled in hospital service prepayment plans or taken out hospital expense insurance. Of these some 23,000,000 are also covered for physicians' services in surgery and obstetrics, but only about 4,200,000 are also covered for physicians' services in the home and office. Complete health service including dental care, drugs, etc., is not yet available under existing prepayment plans.

Experience even with the existing limited prepayment arrangements shows that they are, or can be, mutually advantageous both to the recipients and the providers of care. Thus the report of a recent survey of the Blue Cross hospital service plans and of affiliated medical service plans (these plans are generally limited to surgical and obstetrical service or to care of hospitalized illness) states:

The first conclusion of this survey is that hospital and medical plans are beneficial for the subscribers, the hospitals, the medical profession and the general public. The plans enable the subscribers to pay for hospital and medical care in a convenient manner. They give protection against the risk of heavy sickness costs. Having this protection, people obtain care who otherwise might go without, and they tend to obtain care more promptly. Some persons who, in the absence of advance provision, would be forced to ask for charity care are enabled to pay their own way. Knowledge that all or the greater part of the costs of his illness will be taken care of aids recovery of the subscriber-patient. He feels free to stay in the hospital as long as may be necessary. The plans enable subscribers to receive care in better hospital accommodations than they would otherwise be able to afford. [Reed, Louis S., *Blue Cross and Medical Service Plans*, U. S. Public Health Service, October, 1947, p. 230.]

The conclusion is that payment of medical costs by the individual on a fee-for-service basis has many limitations and that virtually the entire population would benefit from group arrangements for spreading the cost of health services.

### **The low incomes of many in the population**

An important factor in the situation is the low income of part of the population. We have seen that a large share of the population, who are not indigent, will be unable to meet or will find it

difficult to meet the cost of necessary medical care in serious illness on an individual payment basis. However, there appears to be a certain part of the population with incomes so low that even on a prepayment or insurance basis they would be unable to pay the full cost of adequate care.

In 1946, 12.8 percent of all single individuals and families in this country had gross cash incomes of less than \$1,000, 15.4 percent had incomes between \$1,000 and \$2,000, 19.5 percent had incomes between \$2,000 and \$3,000, 31.4 percent had incomes between \$3,000 and \$5,000, and 20.9 percent had incomes of \$5,000 or more. [Economic Report of the President to the Congress, Jan. 14, 1948, p. 19.] These figures relate to cash incomes only and do not include the value of an owned home or of food raised and consumed at home. Although incomes have since risen about 10 percent, the cost of living has risen to at least the same extent.

Families with incomes of \$1,000 or \$2,000 may have difficulty in paying the full cost of needed care even on a prepayment or insurance basis. Consider the present subscription charges under existing prepayment plans. Under the Blue Cross, monthly subscription charges range from about \$0.75 to \$1.25 for an individual, \$1.50 to \$2.50 for a couple and \$2.00 to \$3.00 for a family. The charges for surgical and obstetrical or for in-hospital coverage under the Blue Shield Plans tend to run at about the same figures. Coverage of hospitalization and complete physicians' services, including home and office visits, would probably entail costs of \$2.50 to \$3.50 for a single individual, \$5.00 to \$7.00 a month for a couple, and \$6.00 to \$10.00 a month—\$72.00 to \$120.00 a year for a family. Expenditures for physicians' services and hospitalization amount on the average to between 50 and 60 percent of family expenditures for medical care, the remaining costs being made up by those for dental care, nursing, drugs, eye glasses, services of other types of practitioners, etc. If the same proportionate relationships were to hold, it might be expected that under prepayment plans providing comprehensive medical care including dental care, nursing care and drugs, the subscription charges for a family would be in the neighborhood of \$120 to \$200 a year.

At the present time people spend for medical care about four to five percent of their income, on the average, the percentage being somewhat higher than this for those in the lower income groups and gradually declining as income rises. It might well be that if, through prepayment, medical care were given a firm and established place in the family budget, people could be encouraged to spend a larger proportion of their income than at present for medical care. Yet when one reflects that many families with incomes under \$2,000

or \$3,000 are unable to afford an adequate diet or adequate housing—things which in the long run are as essential to health as medical care—it appears doubtful that families at this income level can appreciably increase their medical care expenditures. In short, one may conclude that there is a certain proportion of families—over and above the indigent—with incomes so small that they would be unable to afford the full costs of adequate medical care even on a prepayment basis.|| Obviously, if this group is to receive adequate care part or all of the cost must be borne by those of higher incomes.

### **Lack of personnel and facilities**

Another important factor in the problem is the lack or insufficiency of hospital facilities and medical personnel in various rural areas. In large measure this problem is a special case of the underlying economic problem, that is to say these areas lack facilities and personnel not because they are rural but because they are areas of low income, and the population has been unable to support or maintain the necessary facilities and personnel.

However, there are certain special factors at work. The sparsely settled character of some rural areas makes the provision of medical attendance especially expensive and difficult. Frequently, rural areas lack hospital facilities and physicians trained in modern methods of diagnosis and care are reluctant or unwilling to locate where they will not have suitable hospital and diagnostic facilities at their command.

### **Need for public understanding of the value of medical care, including preventive service**

One reason why some people do not receive adequate care is that they have an insufficient appreciation of the value of good medical care, especially of preventive service, and therefore do not seek it. Some even refuse to obtain needed hospital or medical attention.

|| The U. S. Bureau of Labor Statistics has drawn up a list of the commodities and services considered necessary for a minimum but adequate standard of living for a family of four—man, wife and two children under 15. It has priced these commodities and services in 34 representative cities and found that the total cost as of March, 1946 ranged from \$2,573 to \$2,985. In 1945, of urban families with two children, 29.1 percent had total money incomes of less than \$2,500 and 45.3 percent had total money incomes of less than \$3,000. (U. S. Bureau of Labor Statistics, *City Worker's Family Budget*, 34 cities of the United States, Dec., 1947; and Bureau of the Census, *Current Population Reports*, Consumer Income Series p. 60, No. 2, March 2, 1948, p. 13.)

A very large share of the population, including some physicians, have an insufficient understanding of the value of preventive service. Lack of appreciation of the value of dental care is particularly widespread. Much needless disability and death could be prevented if people sought care early in illness.

A good deal of the lack of appreciation of the value of medical, hospital and dental care, is, in a sense, a reflection of or a result of the economic problem: people have been unable to afford care and have not experienced its value; therefore, they do not value it highly. Thus the situation calls for measures in addition to economic ones.

### **Community discriminatory patterns**

Still another factor in the situation—one which is not restricted to the South—is the presence of community discriminatory patterns against minority groups. Hospitals in all parts of the country will not accept Negro patients—hence such facilities are non-existent so far as the Negro population is concerned. Most voluntary and many government hospitals will not accept Negro patients, and will not permit Negro physicians to use the hospital facilities. Hence, Negro physicians, in effect, lose their patients if they hospitalize them, a factor which acts as a deterrent to hospitalization. The denial of hospital staff appointments to Negro physicians means that these are denied opportunities for professional growth and even for education and training.

In various areas the medical care available to the Negro group is almost non-existent or far less than that available to the whites, because white physicians may be unwilling or reluctant to serve Negro patients. The unwillingness or legal inability of some medical schools to accept Negro students is another important factor.

Community discriminatory patterns work to the disadvantage of all minority groups affected. But they are of particular importance as regards the Negroes. This group is already at a disadvantage because of its general low economic status, but to the economic barriers are added other barriers which further reduce access to medical care.

### **Insufficient coordination among the personnel and facilities providing care**

The quality of service provided to the public is lower than it should be and the cost of service is higher than it need be because of insufficient coordination among the various individuals, groups

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and facilities providing care. There is good reason to believe that the cost of hospital care to the public would be reduced and the quality improved if the hospitals in each hospital-service area were more closely coordinated. Thus it would be beneficial if rural hospitals were tied in with central teaching institutions which could provide the former with consultant X-ray and pathology service, and would aid in the training of personnel, etc.

In the field of medical service itself there is reason to believe that changes are necessary if the public is to receive the best possible care at the lowest possible cost. The growth in medical knowledge has made it impossible for any one individual to be skilled in all fields of medicine; hence specialization developed and has reached the point where in certain cities over half of the practicing physicians are specialists. In cities, many families no longer have a family physician, but turn to one or another specialist as occasion arises. The situation has disadvantages both for the public and the profession. The care of the patient by a number of specialists practicing independently not only runs up the cost but may result in the patient not being dealt with as a "whole." The referral of patients between independent practitioners raises the difficult problem of fee splitting.

The answer to present difficulties which are due to the necessary complexity of medical care and the development of specialization probably lies in some form of group practice. Under this type of practice it is possible to obtain close coordination of the services of general practitioners and specialists. Frequent consultation is favored. Economies can be gained through the sharing of overhead, the services of auxiliary personnel and equipment. Close association with colleagues proves stimulating to the individual physician and makes for the maintenance of both ethical and technical standards.

While group practice is still in its experimental stages, experience indicates that its further development, particularly with the hospital as a center, would have marked advantages for the public and the profession.

## Conclusions

- The steering committee agrees on three main principles:
1. That adequate medical service for the prevention of illness, the care and relief of sickness and the promotion of a high level of physical and mental health should be available to all.
  2. That sound financing of personal health services requires (a) effective application of the principle of prepayment or insurance,



and (b) the use of public resources for services not covered in the prepayment or insurance program and for persons for whose care public responsibility is acknowledged.

3. That high standards and reasonable costs require close coordination of the services of physicians, hospitals and other health agencies, in all phases of prevention, diagnosis and treatment.

## FOREIGN MEDICAL CARE PROGRAMS

Franz Goldmann, "Foreign Programs of Medical Care and Their Lessons," *New England Journal of Medicine*, 1946.

IT IS A simple matter to state that complete medical care of the finest type is wanted for the greatest possible number of people at the least possible expense, but it is a Herculean task to translate such a need into a practical and workable plan. In the course of some sixty years, various types of medical-care programs have been tried out in a score of foreign countries. There is a wealth of experience regarding the relative merits of the basic methods of organizing and administering programs for the care of the sick. Some of the fundamental principles introduced late in the nineteenth century have proved to be sound and capable of wide application; others have been found to be inadequate, although they have not fallen into complete oblivion. In concern for tomorrow one must not forget the lessons of yesterday—and there are many lessons to be learned from both the achievements and the shortcomings of policies for organizing medical care.

Instead of describing details of some of the programs adopted abroad, I shall focus attention on the common elements in the vast number of developments that have taken place when enthusiasm crystallized into programs, and on the guiding principles of organization and administration that have emerged in the process of a piecemeal, and often haphazard, growth. I shall briefly discuss the methods of organizing professional services and facilities for medical care, the methods of organizing payment for medical care, the administrative organization of medical-care programs and the social philosophy underlying foreign developments.

\* \* \*

In organizing professional services, the prevailing policy has been, and still is, to preserve the old-established principles of prac-

ting medicine—those of private practice, individual practice and free choice of a physician. In a score of countries these three principles have been incorporated in social-insurance laws as well as in public-assistance statutes. They have been observed regardless of the method chosen for organization of payment for professional services. As experience accumulated, the wisdom of continuing the old policy was increasingly questioned. There was little inclination to discard the principle of private practice, but there have been some exceptions to the rule that deserve mention.

Russia, in line with her political ideology, has chosen the system of salaried medical service under government control. Private practice, although not forbidden, plays no role worth speaking of. Some hundred rural "municipalities" in certain Canadian provinces, notably Saskatchewan and Manitoba, have adopted the so-called "municipal doctor scheme," under which one or several salaried physicians are employed by the community to render service to all residents. A few months ago the Saskatchewan Government announced plans for the extension of this system throughout the province. Similar programs have been introduced in some rural areas of Australia, in particular in the Northern Territory, Queensland and Tasmania.

Whereas the principle of private practice has been maintained in the vast majority of all foreign countries, the system of individual practice has been increasingly criticized. There has been growing realization of the need to adjust medical practice to the rapid scientific progress and the profound socioeconomic changes that have taken place since the nineteenth century—the good old days when there was justification for the saying, "God cures the sick and the doctor takes the fees." It is now generally recognized that the attainment of quality, efficiency and economy of service is of prime importance in planning for the future. Two specific problems stand out as particularly pressing: the co-ordination of the work of the general practitioner and the specialist, since the latter should complement rather than supplant the former; and the integration of so-called "preventive" services and "curative" services, since these cannot be separated without injuring both.

To improve the situation, the introduction of the group practice of medicine has been increasingly recommended, primarily in the last two decades. The term "group practice" denotes a system of co-operative practice of medicine by physicians for the purpose of pooling experience and skill, facilities and equipment, technical and other auxiliary personnel and operating expenses, if not also earnings. Group practice is first of all a method to promote the scientific co-operation of the medical and allied professions for the

welfare of the sick. Although it has no direct relation to the method of paying for medical care, the system gains in value if the economies it affords are passed on to the patient.

Well organized group practice conducted from a properly staffed and well equipped center, such as a clinic or a hospital, greatly benefits the patient, the health professions and the community. It provides for better and more service in a convenient way, serves to attain consistency and continuity of treatment and reduces the costs of medical care for both patients and physicians. It gives the physicians and related groups opportunities for professional improvement through consultation, research and post-graduate study, a satisfactory income, greater freedom from night calls, Sunday work and evening hours, and paid vacations. It fills a gap in the community-health program by making good medical care, both preventive and curative, available at reasonable costs.

On a limited scale, group practice has been developed in a few countries, such as Chile, France, Germany and Peru, in all instances in connection with social-insurance programs. It is interesting that in Germany group practice was abolished by the Hitler régime in line with its political ideology. Even the limited experience gained abroad clearly shows that group practice compares favorably with individual practice, since better and more service can be given at lower costs, and this tallies with the experience acquired by group clinics in this country. Significantly, recent legislative proposals in Canada and Great Britain recognize group practice and want to try it out on a larger scale. Going a step farther, the National Health and Medical Research Council of Australia has proposed the general introduction of group practice, along with the establishment of a system of so-called "consultation centers" throughout the country.

The lesson that can be learned from the development abroad is as follows. Originally, little attention was paid to the organization of professional services, and major emphasis was placed on the development of payment plans based on the insurance principle. Belatedly, it was recognized that failure to adjust the organization of professional services to modern requirements endangered the effective and economical operation of any organized program of medical care.

The organization of hospitals and clinics abroad has advanced remarkably far. The major problem was to decide on the responsibility for construction and equipment and the improvement of all the medical-care facilities necessary to meet individual requirements as well as to satisfy the community's need for adequate, humane and economical service. There are two schools of thought

abroad. One group believes that all medical-care facilities ought to be established at public expense, exactly as is done with schools, highways, utilities, recreational facilities and similar services essential for the welfare of the individual as well as that of the social organism. Opponents of this policy—and there are many—insist that public policy should not deny scope and opportunity in one of the most appealing fields to the expression and practice of freely accorded individual benevolence. They do not, however, question the obligation of government to provide for certain types of facilities.

Actually one finds four distinct policies abroad. In Russia, all hospitals and clinics are owned and operated by the state. In a considerable number of countries, the great majority of all hospitals and clinics are built by local, state or national governments. Nongovernmental activities in this field are not only permitted but closely co-ordinated with those of public agencies. Nongovernmental facilities, however, must meet strict requirements as to quality, have a license to operate, and accept supervision by public authorities. Another group of countries believe that government's responsibility should be confined to provision of selected types of facilities, such as isolation, mental and tuberculosis hospitals and certain types of preventive clinics, voluntary organizations being encouraged to provide for general and allied hospitals as well as clinics of various types. Still another group of countries, including some in South America, have encouraged the construction of hospitals by social-insurance organizations.

In a score of countries, the marked change in social philosophy, expressed in the shift from private to public responsibility for the establishment of all necessary medical-care facilities, has raised intricate problems. Some groups and individuals argue that there is no longer any justification for the voluntary hospital system and hold that nongovernmental hospitals should be abolished in favor of a system of public hospitals. Others believe that voluntary hospitals should not be prevented from operating, provided that they meet standards of adequacy and are functionally co-ordinated with governmental hospitals. The clinic problem too is being hotly debated. In the course of a haphazard development numerous types of clinics have come into existence, some organized for preventive service only, some emphasizing treatment service, some serving exclusively the needy and some admitting selected groups of self-supporting patients. The wisdom of continuing such artificial distinctions is increasingly questioned, and a

new approach to the clinic problem is urged. Instead of a variety of clinics with different functions and serving different socioeconomic groups, there should be established medical centers or health centers to provide both preventive health services and care in sickness for all residents of the community. These centers should serve as the headquarters of physicians and related groups in private practice as well as of personnel employed by public and private agencies. Pertinent recommendations to this effect appear in several legislative proposals recently advanced in foreign countries.

There are two basic methods of organizing payment for professional and institutional services: taxation and insurance. When the method of taxation is used, revenues are raised primarily through taxes on property and income and to some extent through excise taxes such as sales, liquor and tobacco taxes. When the method of insurance is employed, the funds are raised in a quite different way. Insurance against the economic hazards of sickness, injury and maternity is a method of pooling risks and resources to budget and pay the cost of medical care or to compensate for loss of earnings due to disability, or to fulfill both these functions. The principle of insurance implies that many persons must band together under a single plan to spread their risks and must make small regular prepayments into a common fund to pool their resources. Thus, health insurance is organized self-help to remove or reduce the financial burden that may arise from sickness, injury or maternity. People can budget and pay for services and cash benefits when they are well and earning; they can obtain service to prevent illness and incapacity for work and receive medical care and compensation for disability when they are sick and disabled.

Both methods of financing medical care are in wide use abroad, although there are significant differences in the extent to which they are employed. Russia, in 1937, abandoned the method of financing medical care through insurance and since that time has been supporting her medical-care program out of general tax revenues. Only a few services, such as convalescent care and treatment in health resorts, are still financed through social insurance. In many other foreign countries the method of taxation is employed on a more limited scale. The policies differ greatly from country to country owing to wide variations in needs and available resources as well as in social philosophy. A few examples will serve to illustrate this point.

In Sweden, tax funds defray all but about 1.5 percent of the expenditures for operating communicable-disease hospitals. This

is an outstanding example of a policy designed to support the control of communicable disease by providing for most liberal hospitalization at public expense without regard to the economic conditions of the patient. In Ireland, there are a large number of public treatment clinics, and the policy responsible for them dates back to the early nineteenth century. These centers provide for home care as well as clinic care and serve all persons in need; the interpretation of such need is quite liberal. In a large number of countries, such as Austria, Germany, Great Britain and the Scandinavian countries, the tuberculosis-control or venereal-disease-control program, or both of them, are supported primarily out of tax funds. The eligibility standards for medical care at public expense are such as to enable the large majority of the people to receive any service they need. In some countries, there developed a multitude of special tax-supported programs with different standards of eligibility and service, all operating separately. That such a policy inevitably has patchwork results is now fully recognized. An attempt has been made in recent proposals to remedy the situation by integrating special programs into over-all programs. Nearly all foreign countries use tax funds to pay for the medical care of selected groups of persons, primarily war veterans and the recipients of public assistance. Extension of tax-supported medical care to self-supporting persons is widely regarded as unsound policy. The system of public medical care for those in need necessarily involves application of the person involved and determination of his eligibility by a so-called "means test." Under this system, the applicant and his family must have exhausted most, if not all, of their own resources before they can be accepted for a service that in the final analysis is a last resort. Charity, well intended as it is, is not what the common man wants. Restriction of service to persons in need jeopardizes preventive action. It comes too late to prevent complications, serious illness and chronic stages of sickness, and too late to permit the most economical use of the taxpayers' money. It is the considered opinion of nearly all experts abroad that the public-assistance approach to the organization of medical care is highly undesirable, and that it should be employed as little as possible.

Recognizing the inadequacy of the public-assistance approach to health security, a steadily growing number of foreign countries have turned to programs based on the application of the insurance principle. Such plans make service available as a right, acquired by regular prepayments, and without application and a means test. Abroad, just as in this country, voluntary plans were first tried out, particularly in industry. Originally the voluntary

plans paid cash to the patient so that he could pay his doctor or the hospital. The shortcomings of this method have been recognized so generally that at present nearly all nonprofit plans provide for service rather than cash allowances, whereas commercial plans usually indemnify the policy-holder for medical expenses incurred. At the commencement of health insurance, plans operated for profit dominated the scene. Later, growing emphasis was placed on the development of nonprofit plans. Originally the plans were strictly limited in service, but as time went on and experience accumulated, a tendency developed to provide for more inclusive service. At that juncture the natural limitations of voluntary plans became apparent. It has been fully realized that voluntary plans can provide for selected services and reach selected economic groups, but they cannot provide for complete medical care at reasonable cost if operated on the basis of the individual practice of medicine, and they cannot reach those who need protection most. Moreover, there is the great danger that multiple, financially weak and competing organizations will develop in the same community. Vested interests are created that cannot be dislodged later, as Great Britain has experienced.

Because of the limited applicability of voluntary health insurance, some thirty countries in Europe, Asia, South America and Australia have come to adopt insurance plans required, safeguarded and subsidized by law. Mexico passed such an act three years ago. The main features of compulsory sickness insurance abroad may be summarized as follows. Certain socioeconomic groups, primarily composed of employed persons, are required to join a group plan. Persons belonging to these groups are required to make regular prepayments into a common fund, and in the case of employed persons this requirement is extended to the employers. Special legislation defines the rights and duties of the insured, the services available, the organization of professional services and hospitalization and the administrative organization of the plan, including supervision concerning adequacy and economy of service.

Often, compulsory sickness insurance is part of a comprehensive system of social insurance or social security. In many instances it provides protection against the economic risks of sickness, injury, maternity, temporary disability from sickness, injury and maternity, and death from sickness or injury, although in some countries only one or some of these hazards are covered. Protection against the economic risks of industrial accidents and certain occupational diseases is provided under special statutes, which are often incorporated in an over-all law.

The marked differences in the organization of compulsory sick-

ness insurance abroad make it nearly impossible to give a clear picture of it in the limited space available here. All that can be done is to describe major trends of foreign developments. Such presentation may be appropriately entitled "From Bismarck to Beveridge." What Bismarck introduced in the eighties, primarily to forestall socialism, has grown to be considered a potent instrument to realize the democratic ideal of equal opportunity for everyone to obtain good medical care. Beveridge's courageous recommendations for the improvement of the British system culminate the development of sixty years of compulsory sickness insurance.

What, then, are these major trends? Originally compulsory sickness insurance covered only industrial wage earners—regardless of income—and certain groups of white-collar workers earning less than a stated amount a year. Gradually the coverage of the plans was extended by adding more groups and raising the income limit below which insurance was required. There has developed a definite trend toward including the majority of the employed persons, irrespective of the type of employment, and to apply the principle of compulsory insurance equally to industry, commerce, agriculture and domestic service. What is even more important, the family dependents of employed persons were made eligible for medical care in a steadily increasing number of countries, such as Australia, Chile, Czechoslovakia, France, Germany, Norway and New Zealand. Great Britain still excludes the family dependents but is planning to remedy this generally admitted defect in the near future. Last, but not least, voluntary enrollment in social-insurance programs is permitted in many countries. In short, whereas compulsory sickness-insurance programs originally included a minority of the people in the various countries, they now exclude a minority of the people in several countries.

The second noteworthy trend is that toward provision of complete medical care. At the beginning of compulsory sickness insurance, the medical-care provisions were meager. They still are deficient in some countries that have been slow to adjust their programs to the scientific progress of medicine. In many countries, however, the type, scope, amount and period of medical care for persons eligible for insurance service have been steadily extended. Often, the services include those of physicians, specialists as well as general practitioners, dentists' services, although with limitations, nurse-midwife services, hospitalization and the supplying of essential drugs and certain appliances. In addition, many laws authorize additional services and the extension of already established ones if sufficient funds are available.

Growing emphasis on the improvement of the quality of med-



ical care is the third trend deserving mention. From their inception most of the foreign social-insurance schemes excluded nonmedical practitioners, and a monopoly was thus created for licensed physicians, dentists and pharmacists. Gradually the services of consultants and specialists were made available and extended, although there are still a few countries with little if any provision for such services. All the necessary diagnostic procedures and therapeutic methods were included in the programs. Excellent diagnostic laboratories and treatment centers maintained by sickness-insurance organizations in some countries testify to their strong interest in improving the quality of service. Early and frequent hospitalization has been encouraged, on the theory that such policy is not only highly valuable for the establishment of a correct diagnosis and the prevention of serious illness but also economical, since the average length of stay of the patient tends to decline as early hospitalization is promoted. In spite of all these efforts, the situation is still far from perfect, primarily because of the limitations inherent in the system of individual practice. Aware of this fact, several governments and a large number of experts abroad pay much attention to the development of group practice in connection with compulsory sickness insurance.

The fourth trend characteristic of foreign developments is that toward creation of a firm basis for the organization of and the payment for professional services. As a general rule, so-called "insurance practice" is open to all duly licensed physicians, dentists, pharmacists and members of related groups. The only condition of admission is willingness to render service according to the terms of the law and of supplementary regulations. In other words, the members of the health professions have free choice: they may participate in the program if they so desire, or they may stay out. The names of the participating physicians and other groups are placed on a list or "panel." Contrary to widespread belief in this country, private practitioners usually render service to the persons eligible for social insurance, and they attend them along with those patients who pay their own bills and those for whom a public agency foots the bill. The patient, too, has free choice, although there are some exceptions to the rule: free choice must not be construed as meaning unlimited free choice. No country permits indiscriminate use of the free-choice privilege. There are geographic restrictions, confining the patient's choice to physicians and allied professions residing or having offices in certain districts; and there are usually some restrictions on the selection of specialists, since a good many patients cannot be expected to know just what specialist they need. In many instances, the general prac-

itioner sees the patient first and refers him to the proper specialist when indicated.

The methods of paying the physicians vary greatly. In many countries the capitation system is used; the participating physician receives so much per year or a shorter period for each person on his list. In some instances the flat rates paid are based on the number of patients or the cases of sickness actually treated rather than the number of persons on the list of the practitioner. In the relatively infrequent cases in which the free-for-service system of payment is employed, a special fee schedule is established by agreement between the health professions and the organizations administering sickness insurance. The incomes of physicians and allied professions in many foreign countries come largely from payments made by compulsory sickness insurance, and this source of income is the more important the larger the number of persons eligible for service. What is changed under this system is the method of paying the doctor; what is not changed is the pattern of practicing medicine.

The funds for payment for medical care are raised primarily by regular contributions of both employers and employees, who, in many instances, share equally in the costs. These contributions are supplemented by tax subsidies from the state—usually minor ones. In certain countries, welfare departments make regular pre-payments on behalf of recipients of public assistance and thus enable these patients to obtain the same service as self-supporting people.

Some of the lessons that can be learned from the development of compulsory sickness insurance abroad may now be summarized. The principle of compulsory insurance against sickness has proved to be sound, appropriate and in accord with democratic ideals. At present it is applied in some thirty countries. The existing programs, imperfect as some of them are, have benefited the patients, the participating members of the health professions and hospitals and the countries at large. Many of the shortcomings carried over from the early stages of development have been removed; some have survived and need to be eliminated. Noteworthy is the steady endeavor of all countries to make better and more provisions, the British plan for a national health service affording the best example of this trend.

Despite remarkable advances, many foreign schemes still leave considerable room for improvement. Many students of the subject criticize the policy of focusing interest on the organization of payment and neglecting action to adjust professional services to modern needs and standards. No country ever has expected com-

pulsory sickness insurance to provide complete medical care for all the people. The reason is obvious: a program based on the application of the insurance principle can serve only persons able to make regular prepayments, and it is hard to establish and to administer in thinly settled areas. For these reasons, all the countries having compulsory sickness-insurance programs also maintain complementary programs of medical care financed out of general tax revenues.

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The administrative organization of foreign programs of medical care is distinguished by a well known feature: multiplicity of agencies. A few significant trends may be discussed briefly. Usually, the national governments have accepted responsibility for nationwide policy-making and, to varying extents, for supervision of standards and financial participation. They share responsibility with governments at other levels. Small administrative units have been more and more discarded, since they have proved inadequate for the purpose of financing and administering medical-care programs. Instead, large units, such as counties, districts and regions, are vested with financial and administrative powers and functions. Administration of compulsory sickness-insurance schemes is generally separated from the administration of all other health services and entrusted to special statutory bodies. Thus, a state within the state has been created. The result has been overlapping, friction and waste of administrative effort on the one hand and neglect of some fields of health service on the other. The old principle of lay control of health services has been more and more abandoned in favor of professional supervision of professional matters—the physician, the dentist, the pharmacist and others each being responsible in his own field. These professional persons have authority to decide on the technical and professional aspects of medical care under social-insurance as well as other programs.

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## MEDICAL CARE AND HEALTH INSURANCE

Edwin E. Witte, "Basic Considerations in Medical Care and Health Insurance," *Health Insurance in America*, Second National Conference on Social Security, U. S. Chamber of Commerce, 1945.

AT THIS POINT, it is appropriate to direct attention to what sort of organization of medical care on its economic side we now have in the United States. From some accounts it would seem that the issue with regard to the future of medical care lies between the present system of private medical practice and individual payment of medical costs and some system vaguely described as "socialized medicine." But it is very clear that what we have in this country is not a system of exclusively private medical care, but a mixed system of private and socialized medical care, in whatever sense this last term may properly be used. Of somewhere around \$4 billion expenditures for medical and all related forms of care, drugs, appliances, etc. (and not including any expenditures for medical care in the Armed Forces), \$800 million come from tax funds. If physicians fees and hospital charges alone are considered, the public expenditures bulk even larger, exceeding one fourth of the total. To a very considerable extent the same practitioners are engaged in both the private and the public practice of medicine. The same physician who bills most of his patients for his services, collects from the country when he takes care of relief clients and, in some States, of old age pensioners. Instead of one method of paying for medical care, we now have a great variety of such methods: the fee basis for specific services, pay from public funds for other services or for other patients, unpaid (charitable) services (principally in the form of uncollected bills) to still other patients, and the several different kinds of insurance and pre-service payments on a budgeted basis now in operation. The majority of our citizens pay for most of the medical services rendered to them and their dependents, but when such costly illness as mental disease or tuberculosis strikes some member of their family the public foots most of the bill and they benefit from public health sanitation, food inspection, and immunization services. The government, of course, controls the private practice of medicine in many respects, and the practitioner in

public practice often is as unrestrained in all professional and technical matters as is the private practitioner.

In our mixed system of private and public medical care, the public element has been increasing at least since the First World War. That war resulted in a large extension of public medicine in the establishment of veterans' hospitals and a considerable variety of medical care services for veterans. A further great extension came with the depression during which the old principle that the relief of those of the poor who are dependent upon the public includes everything they must have for a decent living was very generally extended to include all necessary medical and hospital care. It has been further expanded in the present war, not only through the unprecedented large number of men and women in our Armed Forces, all of whom are at this time receiving public medical care, but through a variety of services for their dependents. Viewed as a whole, the private elements in our mixed system still predominate by a large margin, but the trend is toward an increase in the public element.

I have time to mention only a few of the reasons why I expect this trend to continue in the years immediately following the war. A major factor is the war itself. We assuredly are going to provide the same types of services, and probably more extensive services, to the veterans of the present war as to those of the last war. This time there will be more veterans, both in absolute numbers and in percentages and a considerable doubling up of veterans of the two wars. There is also the possibility that as a consequence of the large number of younger doctors now in the Armed Services, quite a few of whom have never known private practice, there may develop a more receptive attitude toward "socialized medicine" than has prevailed among the physicians heretofore.

Another factor tending toward increasing socialization in medicine is the rapid technical advance which is being made in this field. Almost every major medical discovery means more specialists and an increased cost in what is deemed to be adequate medical care. This is not an unchangeable concept, but one which is constantly enlarging with medical progress where formerly diagnosis and treatment by the family doctor was deemed adequate no matter what the illness. Examination by a large group of specialists, with expensive equipment, is often required and the specialist who alone can provide really adequate treatment must charge larger fees to compensate for his longer period of training. It is a great advance that most babies are born in hospitals, but it also costs more than when they were born in homes and delivered by a midwife. The progress of medicine has been such that far fewer

people are ill from contagious diseases of childhood and the early years of life, but the degenerative diseases of the later years require much longer treatment and are vastly more expensive.

Most important of all I consider the attitudes which have developed among Americans, as well as among other peoples. There has developed a conviction that every one has a right to adequate medical care. A corollary is that it is a public responsibility that every one should be able to get adequate medical care—not as a charity, but as a right.

Some years ago there was much disagreement over whether all Americans were able to get adequate medical care. That controversy has been very largely resolved by the undeniable facts. Americans of the present generation enjoy much better medical care than any prior generation of Americans. They also enjoy better medical care than the people of any other nation, except possibly those of a few much smaller countries. We lead in medical discoveries and our physicians are the best trained and best-equipped in the entire world. That holds true also of our hospitals, at least of our better hospitals. Our physicians, with few exceptions, are true to the Hippocratic oath and do not refuse medical services to anyone needing them, whether they have prospects of payment or not. Because of the progress medicine has made in this country, our standards of adequate medical care are much higher than formerly and in advance of the rest of the world. Adequate medical care is the quality of care being taught in our good medical schools and practiced by our up-to-date practitioners.

Such care is not always available in all parts of the United States. Even more important is the fact that many people do not get adequate medical care, although it is theoretically available, in part because of ignorance and apathy, but in part, also, because of lack of money. Most self-supporting people do not want to be obligated to anyone for free services, if they can possibly avoid such embarrassment. Every study indicates that the incidence of disease increases as income decreases, while the reverse is true of the amount of medical care actually received, outside of the relief group. Throughout the depression period, at least, it was true that medical care was most adequate for the people at the extremes of the economic scale—the well to do, on the one hand, and those on relief, on the other. It was least adequate for the groups above the poverty line, but without much margin. There are quite a few Americans who cannot pay for any part of the medical care services they need and many more Americans who can pay for adequate medical care until some catastrophic illness strikes some member of their families.

Sickness presents two distinct economic problems to the American family. If it is the breadwinner who is sick, there is the problem of the loss of wages, upon which the family is dependent, plus the additional cost which sickness care entails. If it is a non-breadwinner who is sick, only the latter item is involved. Of the two, the cost of medical care bulks largest in totals, but the loss of pay during illness is by no means a negligible factor. It averages somewhere around 2 percent of the potential total annual earnings, and medical care of all types, in the aggregate, costs at least 50 percent more than the loss of earnings attributable to sickness. Averages, moreover, give a very erroneous impression of the seriousness of the problem. An important characteristic of sickness and its costs is its very unequal distribution. One half of all Americans have no disabling illness in any year. Considerably more than half of all illness falls upon less than one fourth of the population. Less than one tenth are burdened with more than a third of the total costs. The net consequence is that sickness is one of the most important causes of poverty and dependency—in periods other than depressions, the most important of all causes.

With this sketchy outline of the existing situation and the problem to be met, I must pass on to the question: What should be done about this matter of medical care and health insurance which promises to loom larger in the years immediately following the war? It has been suggested to me that I should raise questions rather than to pontificate upon the solutions. I am happy to adopt this suggestion, because I do not claim to know all the answers. While I am on record as believing in compulsory health insurance and have, on a number of occasions, expressed the view that the situation requires a constructive program and not merely criticism of proposals presented in Congress and elsewhere, I hope that I am not totally unmindful that at many points there is a choice of alternatives, about which there will, naturally, be differences of opinion.

The first major question, about which there are wide differences of opinion, concerns the extent to which insurance principles should be utilized in making provisions of the costs of illness, which, as noted, include both the loss of wages incident to sickness and the cost of adequate medical care. That insurance principles can be utilized to meet both of these risks is not open to doubt. There is now private insurance both on an individual and a group basis in this country against both of these risks. Outside of this country, health insurance is widely prevalent as a form of social insurance. It is the oldest form of social insurance and the most widely prevalent. It existed before the war in literally every Euro-

pean country and, as has been noted, is now in operation in nearly all of the Latin American nations. While the amount of sickness varies greatly among individuals, its total incidence does not change so very much from year to year. It presents a definable risk and a calculable cost, with lesser probabilities of error than in many other forms of insurance.

Whether insurance should be utilized in providing protection against these risks involves more than whether it is technically possible. It also raises the question of alternatives. Of the theoretically possible alternatives, two—individual savings and private and public charity—must be ruled out as no longer a solution of the problem deemed adequate by the American people. Savings, if large enough, are the surest safeguard against dependency as a consequence of illness. I believe in individual savings as a most valuable safeguard against all personal economic hazards, but a hazard as varying and costly as is illness cannot be met solely through urging people to be thrifty nor even by providing full employment. Only through insurance can the costs be reduced to average costs, rather than the much greater costs which some individuals experience annually. Neither will Americans be satisfied with a solution which leaves people with small or average family incomes to reliance upon charity—whether public or private—when they are confronted with the heavy costs of serious illness.

The real alternatives to some form of health insurance, I believe to be further extension of public medical care and sick leave plans. The latter will afford protection only against the loss of wages in cases of sickness; although a smaller item than the costs of medical care, this is not unimportant. Whether it is desirable to give production workers sick leave on the same basis as has become common for office employees, you are better qualified to say than I. I hazard the guess that if some legislation for partial compensation for loss of wages resulting from sickness is not quite soon generally adopted in this country demands from unions for sick leave plans will multiply and that the time is not far distant when employers will be required to give reasonable sick leave with pay, through legislative enactment or the fiat of some labor board.

Public medical care I also believe to be an alternative to health insurance. No health insurance plan will eliminate the need for provisions to give medical care to indigents at public expense. The person without income, or but little income, cannot contribute to insurance funds. This means that if he is included in a health insurance plan, his costs must either be met by the other contributors or from the public treasury. If excluded, the public must provide him public medical care in some form or other. But the situ-



ation is different as to many people who are above the dependency line. Most of these can pay the costs of at least most of the medical care they need, if they can meet these costs on a budget basis, such as is afforded through insurance. If they do not pay these costs on such a basis, they are likely to make no provisions for possible illness and are swamped if unfortunate enough to be confronted with serious illness in their families. Many of the medically indigent can pay their costs on an insurance basis, but must have public medical care if not covered by some form of health insurance. It is not without significance that a large group among the people interested in more adequate medical care for all Americans, particularly among liberal-minded physicians, have come to the conclusion that public medical care, rather than health insurance, is the solution. And this further is to be said, that while the doctors as a group are very jittery about "socialized medicine" they have fought extension of public medical care much less unyieldingly than health insurance.

Once the basic question whether we want health insurance or not is answered in the affirmative (as was the answer given by the members of the Chamber of Commerce of the United States) many other questions emerge. The first of these is voluntary versus compulsory insurance. I will not go into this issue, except to ask the question, whether it is likely that voluntary health insurance will become sufficiently widespread to stave off the demand for compulsory insurance. The most popular form of voluntary insurance in this field, hospital insurance, thus far covers only 12 percent of the American population; the medical care plans of the medical associations, considerably less than 1 percent, and all medical care plans only 2½ percent of all our people. The spread of voluntary types of health insurance, moreover, may well have the effect of making the American public more receptive to compulsory legislation.

Next, there arises the question of the relation of cash benefits as partial compensation for loss of wages due to sickness and medical care services during periods of illness. Other than in France, health insurance has combined both these benefits. Initially, however, the services in kind were incidental and the core of health insurance lay in the benefits in cash to compensate for wage loss. In all countries there has been a tendency for the medical care and preventive services to become more important, although, in the great majority of the countries with compulsory health insurance systems, more is still being spent for cash benefits than for medical services. In the thinking on post-war health organization, however, cash benefits have everywhere become secondary to preventive and curative

medical care services. In the British plans now under discussion, while both cash benefits and medical care services are to be provided and both are, in part, to be financed from contributions, the cash benefits are regarded and administered as a part of social insurance while the medical care services are the core of the national health programs.

In the United States the early proposals for compulsory health insurance all contemplated a combination of cash benefits and services in kind. This is still the concept of health insurance held by most of the people who approach the subject from the economic side of the medical care problem, as I have done. But this is not the approach of the liberal minded members of the profession. Their interest and that of many others lies in the improvement of the medical care actually provided all Americans. To them, health insurance is only one part of a much larger national health program. Because they could not make headway with compulsory health insurance, combining benefits in cash and services in kind in traditional European fashion, many of the old-time advocates of health insurance have now come to the conclusion that the best hope for progress lies in separating cash benefits from medical care services. This is what was done in the pioneer Rhode Island cash sickness benefit law. I leave to you, whether this is a sound development. But it must never be lost sight of that there are two aspects of the problem and that both are important: the aspect of partially making good the loss of income due to illness, and that of making adequate medical care available to all Americans and other than on a charity basis.

Problems of coverage also loom large in any consideration of health insurance. Health insurance, developing as a part of social insurance, was first applied only to the insured workers. In most countries, but not to date in England, the benefits have since been extended to include the dependents of the workers. More recently they have been extended in some countries to other groups in the population: old age pensioners, public assistance recipients, the dependents of men called to the colors and the self-employed. The thinking of the post-war planners interested in a comprehensive national health program is definitely for the inclusion within the medical care plan of the entire population. But cash benefits are still always thought of as partial compensation for loss of income and, hence, must be limited to the employed part of the population.

In this country, there has been more discussion of the contingencies in which medical care services are to be provided than of the part of the population to be included within the insurance scheme. The medical associations have taken the position that if

there is to be any health insurance the benefits should be restricted to catastrophic or long-continuing illness. The people whose greatest interest is in the improvement of the standards of public health reject this view. I do not have time to further discuss this issue, but note that while a plan which deals with catastrophic illness only may conceivably prove a fairly adequate solution of the purely economic aspects of the problem, it will not serve the preventive objectives which are at least equally important in the national public health programs now under discussion the world over.

Looming large also are problems of administration. Here the basic question to be decided is that of the respective roles of the national and state governments. It is agreed that the actual administration of both health insurance and medical care services must occur on the local level, but this does not preclude a national system or what we have come to call in this country a federal-state system. If we are to have a truly nation-wide post-war public health program some participation by the national government would seem to be inevitable, but there are many possibilities as to the precise role of the respective levels of government we have in this country. It is inevitable, however, that if the national government supplies a large part of financing it will also claim a large share in the control.

Then there are the many problems involving the relations of the medical practitioners to the governmental plan. There is no controversy over the free choice of the doctor by the insured or the choice of patients by the doctors. In this country there will be no compulsion in these respects. Neither is any one disposed toward interference with any of the technical aspects of the performance of medical services. But there are major questions relating to the degree of control which the medical profession is to have over the general administration of the health insurance and medical care plans and regarding the method on which practitioners are to be compensated for their services. Clearly, the profession should have a direct voice and part in administration, but it must also recognize that the patients have an interest in health, no less than the doctors. It seems to me clear also that in this country we will not have completely socialized medicine, but rather some modification of our present mixed system combining both private practice with public medical care.

Quite similar is the problem of the relation of any governmental plan to the existing insurance and other pre-service payment plans. On this problem, it must be noted that most of the advocates of a national public health program would prefer to develop such a program without having to take the existing plans into consider-

ation. Many of the outstanding weaknesses in compulsory health insurance as it has functioned in England to date are directly traceable to the fact that the governmental system incorporated a great variety of pre-existing voluntary systems, functioning through the friendly societies. Considering the problem realistically, however, it seems clear that any national public health program must take account of the existing voluntary plans and assign them a part in this program. What this should be opens a broad vista of possibilities.

This leaves the vital matter of financing. I am not one of those who believes that we can afford in the consideration of desirable social progress to pay no attention to the costs. I do not share the position many businessmen have taken in the controversy over the financing of old-age and survivors' insurance and tax freezing that current costs only need to be considered and that we do not even need a statement of the liabilities we are incurring which have to be met in the future. Health and medical care services, unlike old age insurance, do not involve a factor of inevitable, rapidly increasing disbursements with the lapse of the years. Yet I deem it essential that we have careful estimates of costs and a clear idea of where the money is to come from. I also believe that no benefits should be promised that cannot be surely financed. You may differ from me in these views, as many of you have in relation to old-age and survivors' insurance, and I recognize that time may prove you right, although I expect the contrary. But even if you agree with me, the question remains of the distribution of the inevitable costs. With the large demands there will be upon the public treasury for many purposes, I do not believe it to be desirable to attempt to finance a national program of health insurance and medical care services exclusively from public funds. I believe triparty financing—from public funds and contributions of the beneficiaries and also of the employers—is indicated. One of the reasons I believe in insurance is that I deem direct contributions by the beneficiaries to be essential. I further believe employer contributions to be necessary but would keep them as low as possible. The exact distribution is a matter on which any program that can gain majority support will be acceptable to me.

In concluding, I fear that I have been more positive than I intended. In so freely expressing my views I have not sought to convert you, but rather to challenge your thinking and to provoke discussion of the important problem with which we are dealing. It is, indeed, one of the major problems of the immediate post-war period and will demand the best thought of informed people in all groups in our population and a desire on their part to find a solution suitable to our institutions and present day thought.

## NATIONAL HEALTH PROGRAM

President Truman, Message to the Congress, November 19, 1945.

*To the Congress of the United States:*

**I**N MY MESSAGE to the Congress of September 6, 1945, there were enumerated in a proposed economic bill of rights certain rights which ought to be assured to every American citizen.

One of them was "the right to adequate medical care and the opportunity to achieve and enjoy good health". Another was the "right to adequate protection from the economic fears of . . . sickness . . .".

Millions of our citizens do not now have a full measure of opportunity to achieve and enjoy good health. Millions do not now have protection or security against the economic effects of sickness. The time has arrived for action to help them attain that opportunity and that protection.

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To meet these problems, I recommend that the Congress adopt a comprehensive and modern health program for the Nation, consisting of five major parts, each of which contributes to all the others.

### **First—construction of hospitals and related facilities**

The Federal Government should provide financial and other assistance for the construction of needed hospitals, health centers, and other medical, health, and rehabilitation facilities. With the help of Federal funds, it should be possible to meet deficiencies in hospital and health facilities so that modern services—for both prevention and cure—can be accessible to all the people. Federal financial aid should be available not only to build new facilities where needed but also to enlarge or modernize those we now have.

In carrying out this program, there should be a clear division of responsibilities between the States and the Federal Government. The States, localities, and the Federal Government should share in the financial responsibilities. The Federal Government should not construct or operate these hospitals. It should, however, lay down minimum national standards for construction and operation and should make sure that Federal funds are allocated to those areas and projects where Federal aid is needed most. In approving

State plans and individual projects, and in fixing the national standards, the Federal agency should have the help of a strictly advisory body that includes both public and professional members.

Adequate emphasis should be given to facilities that are particularly useful for prevention of disease—mental as well as physical—and to the coordination of various kinds of facilities. It should be possible to go a long way toward knitting together facilities for prevention with facilities for cure, the large hospitals of medical centers with the smaller institutions of surrounding areas, the facilities for the civilian population with the facilities for veterans.

The general policy of Federal-State partnership which has done so much to provide the magnificent highways of the United States can be adapted to the construction of hospitals in the communities which need them.

### **Second—expansion of public health, maternal and child-health services**

Our programs for public health and related services should be enlarged and strengthened. The present Federal-State cooperative health programs deal with general public health work, tuberculosis and venereal disease control, maternal and child-health services, and services for crippled children.

These programs were especially developed in the 10 years before the war and have been extended in some areas during the war. They have already made important contributions to national health, but they have not yet reached a large proportion of our rural areas, and, in many cities, they are only partially developed.

No area in the Nation should continue to be without the services of a full-time health officer and other essential personnel. No area should be without essential public health services or sanitation facilities. No area should be without community health services, such as maternal and child-health care.

Hospitals, clinics, and health centers must be built to meet the needs of the total population and must make adequate provision for the safe birth of every baby and for the health protection of infants and children.

Present laws relating to general public health and to maternal and child health have built a solid foundation of Federal cooperation with the States in administering community health services. The emergency maternity and infant care program for the wives and infants of servicemen—a great wartime service authorized by the Congress—has materially increased the experience of every State health agency and has provided much-needed care. So, too,

have other wartime programs, such as venereal disease control, industrial hygiene, malaria control, tuberculosis control, and other services offered in war essential communities.

The Federal Government should cooperate by more generous grants to the States than are provided under present laws for public health services and for maternal and child health care. The program should continue to be partly financed by the States themselves and should be administered by the States. Federal grants should be in proportion to State and local expenditures and should also vary in accordance with the financial ability of the respective States.

The health of American children, like their education, should be recognized as a definite public responsibility.

In the conquest of many diseases prevention is even more important than cure. A well-rounded national health program should, therefore, include systematic and widespread health and physical education and examinations, beginning with the youngest children and extending into community organizations. Medical and dental examinations of school children are now inadequate. A preventive health program, to be successful, must discover defects as early as possible. We should, therefore, see to it that our health programs are pushed most vigorously with the youngest section of the population.

Of course, Federal aid for community health services—for general public health and for mothers and children—should complement and not duplicate prepaid medical services for individuals, proposed by the fourth recommendation of this message.

### **Third—medical education and research**

The Federal Government should undertake a broad program to strengthen professional education in medical and related fields and to encourage and support medical research.

Professional education should be strengthened where necessary through Federal grants-in-aid to public and to nonprofit private institutions. Medical research, also, should be encouraged and supported in the Federal agencies and by grants-in-aid to public and nonprofit private agencies.

In my message to the Congress of September 6, 1945, I made various recommendations for a general Federal research program. Medical research, dealing with the broad fields of physical and mental illnesses, should be made effective in part through that general program and in part through specific provisions within the scope of a national health program.

Federal aid to promote and support research in medicine, public health, and allied fields is an essential part of a general research program to be administered by a central Federal research agency. Federal aid for medical research and education is also an essential part of any national health program, if it is to meet its responsibilities for high-grade medical services and for continuing progress. Coordination of the two programs is obviously necessary to assure efficient use of Federal funds. Legislation covering medical research in a national health program should provide for such coordination.

#### **Fourth—prepayment of medical costs**

Everyone should have ready access to all necessary medical, hospital, and related services.

I recommend solving the basic problem by distributing the costs through expansion of our existing compulsory social insurance system. This is not socialized medicine.

Everyone who carries fire insurance knows how the law of averages is made to work so as to spread the risk and to benefit the insured who actually suffers the loss. If, instead of the costs of sickness being paid only by those who get sick, all the people, sick and well, were required to pay premiums into an insurance fund, the pool of funds thus created would enable all who do fall sick to be adequately served without over-burdening anyone. That is the principle upon which all forms of insurance are based.

During the past 15 years, hospital insurance plans have taught many Americans this magic of averages. Voluntary health insurance plans have been expanding during recent years; but their rate of growth does not justify the belief that they will meet more than a fraction of our people's needs. Only about 3 or 4 percent of our population now have insurance providing comprehensive medical care.

A system of required prepayment would not only spread the costs of medical care, it would also prevent much serious disease. Since medical bills would be paid by the insurance fund, doctors would more often be consulted when the first signs of disease occur instead of when the disease has become serious. Modern hospital, specialist, and laboratory services, as needed, would also become available to all and would improve the quality and adequacy of care. Prepayment of medical care would go a long way toward furnishing insurance against disease itself, as well as against medical bills.

Such a system of prepayment should cover medical, hospital, nursing, and laboratory services. It should also cover dental care—



as fully and for as many of the population as the available professional personnel and the financial resources of the system permit.

The ability of our people to pay for adequate medical care will be increased if, while they are well, they pay regularly into a common health fund instead of paying sporadically and unevenly when they are sick. This health fund should be built up nationally in order to establish the broadest and most stable basis for spreading the costs of illness and to assure adequate financial support for doctors and hospitals everywhere. If we were to rely on State-by-State action only, many years would elapse before we had only general coverage. Meanwhile health service would continue to be grossly uneven, and disease would continue to cross State boundary lines.

Medical services are personal. Therefore, the Nation-wide system must be highly decentralized in administration. The local administrative unit must be the keystone of the system so as to provide for local services and adaptation to local needs and conditions. Locally as well as nationally, policy and administration should be guided by advisory committees in which the public and the medical professions are represented.

Subject to national standards, methods and rates of paying doctors and hospitals should be adjusted locally. All such rates for doctors should be adequate and should be appropriately adjusted upward for those who are qualified specialists.

People should remain free to choose their own physicians and hospitals. The removal of financial barriers between patient and doctor would enlarge the present freedom of choice. The legal requirement on the population to contribute involves no compulsion over the doctor's freedom to decide what services his patient needs. People will remain free to obtain and pay for medical service outside of the health-insurance system if they desire, even though they are members of the system; just as they are free to send their children to private instead of to public schools, although they must pay taxes for public schools.

Likewise physicians should remain free to accept or reject patients. They must be allowed to decide for themselves whether they wish to participate in the health-insurance system full time, part time, or not at all. A physician may have some patients who are in the system and some who are not. Physicians must be permitted to be represented through organizations of their own choosing, and to decide whether to carry on in individual practice or to join with other doctors in group practice in hospitals or in clinics.

Our voluntary hospitals and our city, county, and State general hospitals, in the same way, must be free to participate in the system

to whatever extent they wish. In any case they must continue to retain their administrative independence.

Voluntary organizations which provide health services that meet reasonable standards of quality should be entitled to furnish services under the insurance system and to be reimbursed for them. Voluntary cooperative organizations concerned with paying doctors, hospitals, or others for health services but not providing services directly, should be entitled to participate if they can contribute to the efficiency and economy of the system.

None of this is really new. The American people are the most insurance-minded people in the world. They will not be frightened off from health insurance because some people have misnamed it "socialized medicine."

I repeat—what I am recommending is not socialized medicine.

Socialized medicine means that all doctors work as employees of government. The American people want no such system. No such system is here proposed.

Under the plan I suggest, our people would continue to get medical and hospital services just as they do now—on the basis of their own voluntary decisions and choices. Our doctors and hospitals would continue to deal with disease with the same professional freedom as now. There would, however, be this all-important difference: whether or not patients get the services they need would not depend on how much they can afford to pay at the time.

I am in favor of the broadest possible coverage for this insurance system. I believe that all persons who work for a living and their dependents should be covered under such an insurance plan. This would include wage and salary earners, those in business for themselves, professional persons, farmers, agricultural labor, domestic employees, Government employees, and employees of non-profit institutions and their families.

In addition, needy persons and other groups should be covered through appropriate premiums paid for them by public agencies. Increased Federal funds should also be made available by the Congress under the public-assistance programs to reimburse the States for part of such premiums, as well as for direct expenditures made by the States in paying for medical services provided by doctors, hospitals, and other agencies to needy persons.

Premiums for present social-insurance benefits are calculated on the first \$3,000 of earnings in a year. It might be well to have all such premiums, including those for health, calculated on a somewhat higher amount such as \$3,600.

A broad program of prepayment for medical care would need total amounts approximately equal to 4 percent of such earnings.

The people of the United States have been spending, on the average, nearly this percentage of their incomes for sickness care. How much of the total fund should come from the insurance premiums and how much from general revenues is a matter for the Congress to decide.

The plan which I have suggested would be sufficient to pay most doctors more than the best they have received in peacetime years. The payments of the doctors' bills would be guaranteed, and the doctors would be spared the annoyance and uncertainty of collecting fees from individual patients. The same assurance would apply to hospitals, dentists, and nurses for the services they render.

Federal aid in the construction of hospitals will be futile unless there is current purchasing power so that people can use these hospitals. Doctors cannot be drawn to sections which need them without some assurance that they can make a living. Only a Nation-wide spreading of sickness costs can supply such sections with sure and sufficient purchasing power to maintain enough physicians and hospitals.

We are a rich Nation and can afford many things. But ill health which can be prevented or cured is one thing we cannot afford.

#### **Fifth—protection against loss of wages from sickness and disability**

What I have discussed heretofore has been a program for improving and spreading the health services and facilities of the Nation and providing an efficient and less burdensome system of paying for them.

But no matter what we do, sickness will, of course, come to many. Sickness brings with it loss of wages.

Therefore, as a fifth element of a comprehensive health program, the workers of the Nation and their families should be protected against loss of earnings because of illness. A comprehensive health program must include the payment of benefits to replace at least part of the earnings that are lost during the period sickness and long-term disability. This protection can be readily and conveniently provided through expansion of our present social-insurance system with appropriate adjustment of premiums.

Insurance against loss of wages from sickness and disability deals with cash benefits rather than with services. It has to be coordinated with the other cash benefits under existing social insurance systems. Such coordination should be effected when other social security measures are reexamined. I shall bring this subject again to the attention of the Congress in a separate message on social security.

I strongly urge that the Congress give careful consideration to this program of health legislation now.

Many millions of our veterans, accustomed in the armed forces to the best of medical and hospital care, will no longer be eligible for such care as a matter of right except for their service-connected disabilities. They deserve continued adequate and comprehensive health service. And their dependents deserve it, too.

By preventing illness, by assuring access to needed community and personal health services, by promoting medical research, and by protecting our people against the loss caused by sickness, we shall strengthen our national health, our national defense, and our economic productivity. We shall increase the professional and economic opportunities of our physicians, dentists, and nurses. We shall increase the effectiveness of our hospitals and public health agencies. We shall bring new security to our people.

We need to do this especially at this time because of the return to civilian life of many doctors, dentists, and nurses, particularly young men and women.

Appreciation of modern achievements in medicine and public health has created widespread demand that they be fully applied and universally available. By meeting that demand we shall strengthen the Nation to meet future economic and social problems; and we shall make a most important contribution toward freedom from want in our land.

HARRY S. TRUMAN

THE WHITE HOUSE, *November 19, 1945.*

## CONCLUSIONS ON NATIONAL HEALTH

Conclusions of the Planning  
Committee, Medical Care Sec-  
tion, National Health Assembly,  
Washington, May, 1948.

1. Adequate medical service for the prevention of illness, the care and relief of sickness and the promotion of a high level of physical, mental and social health should be available to all without regard to race, color, creed, residence or economic status.
2. The principal of contributory health insurance should be the basic method of financing medical care for the large majority of the American people, in order to remove the burden of unpre-

- dictable sickness costs, abolish the economic barrier to adequate medical services and avoid the indignities of a "means test."
3. Health insurance should be accompanied by such use of tax resources as may be necessary to provide additional
    - a. services to persons or groups for whom special public responsibility is acknowledged and
    - b. services not available under prepayment or insurance.
  4. Voluntary prepayment group health plans, embodying group practice and providing comprehensive service, offer to their members the best of modern medical care. Such plans furthermore are the best available means at this time of bringing about improved distribution of medical care, particularly in rural areas. Hence such plans should be encouraged by every means.
  5. The people have the right to establish voluntary insurance plans on a cooperative basis and legal restrictions upon such right (other than those necessary to assure proper standards and qualifications), now existing in a number of States, should be removed.
  6. High standards of service, efficient administration and reasonable costs require:
    - a. Coordination of the services of physicians, hospitals and other health agencies in all phases of prevention, diagnosis and treatment;
    - b. Effective cooperation between the providers and the consumers of such services.
  7. A medical care program by itself will not solve the health problems of the Nation. It must be coordinated with all efforts directed toward providing the people with adequate housing, a living wage, continuous productive and creative employment under safe working conditions, satisfying recreation and such other measures as will correct conditions that adversely affect the physical, mental and social health of the people.
  8. There are areas on which the Planning Committee is not yet prepared to report. In the meetings of the Medical Care Section, differing views were expressed as to the method of effectuating the principle of prepayment or insurance. Some believe it can be achieved through voluntary plans. Others believe that a national health insurance plan is necessary.

### **Yardstick for insurance plans**

*Points to be measured in determining the Effectiveness of Prepayment Plans in meeting the medical care needs of the people:*

1. The extent to which a prepayment plan makes available to those it serves the whole range of scientific medicine for prevention of disease and for treatment of all types of illness or injury.
2. The proportion a plan covers of the population of its area—local, state or national, as the case may be. (Cost in relation to ability to pay, restrictions on enrollment imposed by actuarial considerations, income level, age, conditions of employment, means of securing enrollment and collecting premiums.)
3. The degree to which a plan makes use of and encourages the development of a high quality of medical care for its subscribers. (Standards of personnel and facilities; organization of services; emphasis on prevention of disease, promotion of health, health education.)
4. The degree to which freedom and willingness to experiment with methods of payment and operation are encouraged in a plan.
5. The degree to which a plan succeeds in arranging amounts and methods of payment and conditions of participation that are satisfactory to physicians, hospitals, and others serving the plan's subscribers.
6. The extent to which efficiency and economy in the operation of a plan are achieved and encouraged by its basic policies and its administrative techniques.
7. The extent to which the individuals or board who carry the ultimate responsibility for a plan represent the interest of those entitled to service and those who are paying the cost, as well as of the physicians, hospitals, or others who are providing the services.

### **Principles for the improvement of voluntary prepayment plans**

1. There should be the freest opportunity for full cooperation among the providers and consumers of service in the establishment and the administration of medical care plans, provided that full control of the practice of medicine in the program must remain with doctors.
2. The medical care section strongly urges the importance of joint conferences at the earliest possible date among representatives of the American Medical Association and of groups representing the consumers of medical care and services to study the question of the establishment and administration of medical care plans.

## PREVIEW OF HEALTH INSURANCE IN OPERATION

*Medical Care Insurance: A Social Insurance Program for Personal Health Services*, Chapter II. Report to the Committee on Education and Labor from the Bureau of Research and Statistics, Social Security Board, U. S. Senate, July 8, 1946. Senate Committee Print No. 5. 79th Cong., 2d Sess.

FOR THE WORKER and his family, health insurance is primarily a method of prepaying the costs of medical care. The worker will therefore have his first direct contact with the system when he pays his social insurance premium. The premium for health insurance, it may be assumed, will be part of the worker's total social insurance contribution, but a designated part. The worker and his family will know just how much of its income is being budgeted for prepayment of medical costs. If the worker is an employee, the employer will deduct the amount of the premium from his pay check, and forward the earnings record and premium to the Government agency, presumably at the same time and in the same clerical operation as that already practiced for old-age and survivors insurance. If the worker is in business or farming for himself (self-employed), he may report his earnings and pay his premium in a supplement to his income-tax return. If self-employed persons with income below the income-tax reporting limit are covered, they might make a simple declaration of income and annual, quarterly or other periodic installment payment of the premium.

A worker who has sufficient credited earnings to meet the eligibility test will have "insured status," that is paid-up rights to the medical care benefits for a year. In some social insurance programs, insured status and the individual's benefit year is determined at the time the risk occurs, as when a worker becomes unemployed, or disabled, or retires or dies. For medical care benefits, however, it would seem preferable to have a uniform benefit year for all beneficiaries. The establishment and continued maintenance of relations between the insured person and the doctor, dentist, or hospital, will be much simpler and easier if the eligibility determination has been made in advance of the time when medical care is needed, so that there is no reason for the insured person to have to deal with the

insurance system or its offices at that time. Furthermore, since medical care benefits would be available to the worker's family as well as to the worker himself, the simplest and most understandable arrangement would be to have a uniform period, such as a year, within which the family has paid-up insured status and is entitled to the insurance benefits without having to take any further steps except to arrange with the doctor or hospital for the medical care that is needed and wanted.

The benefit year might be the calendar year; or it might be the 12 months from July 1 through June 30. If the benefit year begins on July 1, eligibility for the current benefit year will presumably be determined, for most workers, by their earnings and contributions in the previous calendar year, the period generally used for income-tax purposes. The interval between the end of the calendar year and the beginning of the benefit year would give the insurance agency time to obtain all the earnings records and to make a *pre-determination* of insured status. After the insurance system has been started, each new benefit year would start at the end of the preceding one; there would be no gap between successive benefit years.

Somewhat in advance of the beginning of a benefit year, the insurance agency might issue a card to each insured worker, indicating that he and his qualified dependents had paid-up rights to medical care for the coming benefit year. In order to get his card, the worker would merely need to furnish the insurance office his current address, so that the insurance card could be mailed to him. Application blanks for this purpose could be available at local post offices, health agency offices, unions, work places, and elsewhere. The worker would presumably record on his application and his insurance card the names of his dependents, and possibly the signatures of his adult dependents, who would qualify for medical care benefits. A worker who failed to meet the eligibility test at the beginning of a benefit year might send in a new application and become eligible at the beginning of any subsequent calendar-quarter during the benefit year (when additional earnings credits had been acquired), and receive an insurance card entitling him and his family to benefits for the remainder of the benefit year. A family which acquired a new dependent during the course of a benefit year, could arrange to have the individual's name added to the card. Ordinarily, the entire family would probably find it easier to use one card, but separate cards could be provided for members of the family temporarily away from home or who for other reasons find this arrangement more convenient.

Insurance cards evidencing the right to medical care benefits for the current benefit year would also be issued to individuals brought



under coverage through supplementary contractual arrangements between the insurance system and other public agencies. Whether in such cases the cards would be distributed by the insurance agency or by the public agency making the arrangements with the insurance system might be determined by mutual agreement between the two agencies. Whatever the method of distribution, the insurance cards issued to persons covered by contract would presumably be indistinguishable from the cards issued to insured workers.

At or shortly before the beginning of a benefit year, then, each insured person will presumably have a card evidencing right to medical care benefits for the coming year. What each family does from then on in selecting a doctor or dentist and obtaining needed services will depend largely on its own habits and preferences. A family which already has an established relationship with a family doctor, who is participating in the insurance system, will let him know—perhaps on the next call or visit—that they are insured for the coming year. Other families may be stimulated, by the receipt of the insurance card, to select a doctor and to make some contact with him in advance of illness. Many will no doubt wait until someone in the family is ill before making their selection.

Choice of doctor (or dentist) has always depended on many factors. And, as is the case today, previous experience, advice from friends and neighbors, convenience and personal compatibility may be expected to play important roles in determining a family's choice of doctor under the insurance system. The local administrative agency will see to it that lists of the names of all participating physicians are published locally and placed where the lists can easily be consulted by insured persons who do not already have a family doctor. The free choice of doctor by the insured person is limited, of course, by the right of the doctor to accept or reject anyone who chooses him. The continuity and duration of the relationship, once established between doctor and insured persons, depends upon them.

If the doctors in the community have chosen to receive their payments from the health insurance system on a fee-for-service basis, there will be no special reason for the insured individual to select a physician in advance of the time he needs service. The same holds true if the local doctors have chosen to be paid on a salary basis. The insured person will be able to go to one general practitioner or another, at will, among those who are participating in the insurance system, subject to the professional restraints on such "shopping-around" which operate today and would presumably continue to be imposed by the medical profession itself. Unless he establishes a continuing relationship with the doctor, he will have

to present his insurance card each time he sees a new doctor, in order that the doctor may have the necessary information indicating the patient's insurance right and, where doctors are paid by fee-for-service, for billing the insurance system for the service rendered.

If the doctors in the community have chosen to be paid on the capitation basis—that is, according to a fixed amount of money per year or per month for each insured person who has chosen the doctor—insured persons will be encouraged to select a doctor in advance of actual illness, in order that the doctor and the insurance system may know how many persons are relying on a particular physician for care in case of illness or need for preventive service or advice. A person who failed to make an advance selection could, of course, still request the doctor's services when the need arises. An insured person could change doctors if he wished, but where the insurance system pays the doctor by the capitation method, he would be required to notify the local administrative agency or the doctor to transfer his name from one doctor's list to another—in order that only one doctor may receive the capitation payment for him. Unless he make such a change, he will not need to show his insurance card to his family doctor more than once in each benefit year.

If there are in the community physicians practicing together as an organized group, insured persons will be free to receive their medical care from such a group if they so choose. The groups themselves, like individual practitioners, may set up certain conditions as to whom they will accept for care.

Once an insured family has decided it wants a particular physician as its family doctor (or for any member of the family) and has been accepted by him, it will obtain his services just as it would today—according to prevailing practices in the community and the decisions and judgment of the individual doctor, (or the medical group if such has been chosen). The doctor will see patients in his office, at their homes or in the hospital, as he does now. Decisions as to the course of treatment will rest entirely with the doctor. Because of the availability of laboratory and related services as insurance benefits, the doctor will be much freer to prescribe laboratory tests or treatments than he is in many cases today, where the family income and ability to pay for such supplementary services has to be taken into account. The general practitioner will also be able to call on specialist and consultant services whenever in his judgment they are needed. He will also be able to prescribe—at the cost of the insurance system rather than of the patient—such special medicines, appliances, etc., as are provided as benefit. Referral to specialists will ordinarily occur through the general practitioner or family

doctor, or through a specialist who is already attending the patient; but in case an insured person (or the family of the sick person) is refused a referral which he thinks desirable, he would be able to ask for it through the medical officer of the local insurance office.

Whether or not a patient should be hospitalized and for how long will ordinarily be decided by the attending physician, as it is today. While the insured person will have the right to go to any participating hospital in the community or in the hospital-service area, his actual choice will no doubt be determined, as it is today, primarily by the advice of his doctor and the availability of space. When he goes to a participating hospital, the insured person may be required to present his insurance card as evidence of his right to hospitalization benefit. If the hospital has a service contract with the insurance agency, and he receives no services other than those to which he is entitled as insurance benefit, he will have no further financial obligation to the hospital. If the hospital does not have such a contract, he will have to pay his bill himself, and turn a receipt over to the local office to serve as a basis for paying him an indemnity (reimbursement) amount. If the hospital has a contract covering a limited credit, the insured person would have to pay the amount by which his total bill exceeds the amount payable to the hospital by the insurance system.

So far as the insured person is concerned, then, health insurance will mean advance payment of premiums, and the assurance that he and his family are entitled to all needed care provided as insurance benefits. The kind of care the insured person obtains will still be the responsibility of the doctor of his choice, and the methods by which he obtains it will be mainly those which the medical profession and the hospitals sanction and encourage.

### Health insurance as seen by the doctor

For most doctors, also, prepayment will be the most important feature of health insurance. From the doctor's point of view, prepayment means guaranteed payment from the insurance fund—instead of individual payment by the patient—for services rendered.

It is suggested that all doctors licensed under State law should be guaranteed the right to participate as general practitioners or family physicians under the insurance system. A doctor who wishes to engage in insurance practice will signify his intent to the local administrative office and will have his name included on the list of participating physicians. A doctor who wishes to receive the higher rates of payment for specialist services will need to satisfy the requirements that will have been established to show that he is a

qualified specialist for such services. Many will presumably qualify automatically on the basis of having been accredited by the existing professional specialty boards.

When the system first goes into operation, and periodically thereafter, all of the participating doctors in the community will be given the opportunity of selecting the method by which they wish to be paid, from among the several methods available. Individual doctors or groups of doctors who wish to be paid by a method different from that selected by the majority may be permitted to make appropriate special arrangements with the administrative agency.

Each participating doctor will decide for himself whether he wishes to restrict his practice to insured persons or whether he will accept noninsured patients as well; in other words, whether he will devote all or only part of his working time to insurance practice. For those services which he provides to insured persons as insurance benefits, he will be paid by the insurance system; he will not, therefore, be free to charge such a patient or family any supplementary fee for such services. If he furnishes care to noninsured persons, or to insured persons who choose to disregard their insurance rights and to consult him under a private arrangement, or if he furnishes services which are not insurance benefits, he will be entirely free to charge what he wishes and can collect from them for such services, but of course he will not bill the insurance system for these services.

A doctor who has chosen to receive payment on a fee-for-service basis, will need to keep records of services provided to insured persons. Periodically, probably once a month, the doctor will submit to the local insurance agency an accounting—in effect, a consolidated bill—for insurance services rendered during that period, possibly including identification of the insured persons served. Payments to the doctor will be according to the bills submitted, except that if the aggregate of such bills from all doctors in the community exceeds the funds available for all payments to doctors on a fee-for-service basis, the bills will have to be prorated down. If the aggregate bills are substantially less than the total funds available for these payments, the surplus would need to be held—for a while—as a contingency reserve against subsequent periods when the aggregate bills may be in excess of the funds; if a surplus persists; either too much money was allocated for the services or the fee schedule needs to be reinspected for upward revision.

A doctor who is receiving payment on a capitation basis will need only to keep a file of the names of those insured persons who are currently on his list as having chosen him as their physician and whom he has accepted. Periodically, presumably once a month, he

will receive from the insurance system the agreed-upon per capita payment for each person on his list. In addition, if the capitation amount has been calculated on the basis of all the insured and not merely those who have chosen their doctors, he will receive a pro-rata share of payments for those insured persons who are not on any doctors' lists. Since it will be his responsibility to furnish all needed services—that may be expected from a general practitioner or family physician—to those persons, and since he will be paid the same amount per person, regardless of how many services he has furnished any particular person on his list, there will be no need for him to provide the insurance system with a detailed accounting or bill for particular services rendered. The individual physician will decide for himself the maximum number of insured persons whom he is willing to accept on his list (assuming that number choose him) and therefore how much time, if any, he will reserve for non-insurance practice.

Some doctors will prefer to be paid on a salary basis for their insurance practice. The amount of the salary will be a matter for negotiation between the doctor and the insurance agency, on the basis of general salary scales (national, State, or local), and in view of the experience and acquired skill of the particular doctor. A doctor on full-time salary will be expected to devote his full time to serving insured persons (except in emergency situations, of course). He will need, therefore, to make sure that persons who come to him for service are insured, but will not need to give the insurance agency an accounting—for payment purposes—of the individual services he renders. A doctor on part-time salary will devote the appropriate portion of his time to insurance practice. Part-time salary agreements might provide that the doctor is available a specified number of hours a week or month, or on each of a specified number of days, for insurance patients, or might provide other similar arrangements.

Doctors who prefer to practice in groups will, of course, be free to do so. If such a group enters into an agreement with the insurance agency to furnish services as insurance benefits, it may distribute the payments it receives from the insurance system among the several doctors in the group in any way it pleases. How detailed an accounting of services rendered to insured persons the group would need to make to receive payment from the insurance system would depend largely on the scope and character of the services it provided and its choice of the method to be used in calculating the amount of the payment.

Individual doctors or groups of doctors who provide laboratory services more extensive than those usually furnished by doctors as

an integral part of the physician's service may bill the insurance system separately for such services. In rural areas the payments to some or all doctors may also include mileage allowances and supplementary payments for medicines or other supplies dispensed to patients who do not have ready access to a pharmacy.

Whatever the method of payment, the content of the services he provides will remain the responsibility of the individual doctor and of the medical profession. Except in the case of the salaried doctor, the amount of income an individual doctor earns will still depend on the number of patients he can attract and hold or on the number of services furnished insured persons.

The assurance of higher rates of payment for specialist than for general practitioner services should furnish an incentive to many doctors to become and remain proficient in some specialty, even though they intend to devote part or most of their time to general practice. The grants-in-aid for education and training provided by the insurance system would open increased opportunities for specialized training and for attendance on periodic "refresher" courses. The availability of specialist and consultant services, paid for as insurance benefits, will make it easier than at present for the family doctor to call on such services when they are needed. The insurance arrangements would thus afford individual doctors, those practicing in organized groups, and the medical profession as a whole new opportunities for service. What they will make of those opportunities, the doctors themselves will largely determine.

### Health insurance as seen by the hospital administrator

For the hospital administrator, inauguration of health insurance will mean primarily an assured source of income and an orderly basis of financing the hospital. The stabilization of income which the voluntary hospital insurance plans have accomplished for some hospitals with respect to some of their patients will be extended to most hospitals and to services for most of the population, the extent depending on the coverage of the insurance system.

A hospital which is to receive payments from the insurance system for its services to insured persons will have to be on the list of participating hospitals. For nearly all hospitals throughout the country—those which are now registered, certified, approved, and so forth, by the American Medical Association, the American College of Surgeons, the American Hospital Association, and so forth—acceptance as a participating hospital may be substantially automatic. Some of the few hospitals which fail to meet the national standards of professional associations may be able to meet standards

which will be established by the central administration, after consultation with its advisory council, for particular localities or for institutions providing limited classes of service as insurance benefits. Apart from assuring that the institution meets the general standards for participation, the health insurance agency would presumably have no authority with regard to intramural management or administration of the hospital. Admission procedures, methods of selecting or paying its staff, intramural management, the scope of service provided, and so forth, will be determined by the hospital itself.

The payment arrangements between the insurance system and the hospital will depend upon what is finally provided in the health insurance law and upon decisions to be made by the hospital.

A hospital which chooses to receive payments directly from the insurance agency for all services furnished as insurance benefits, will negotiate an agreement with the agency for reimbursement for the costs of such services. The cost accounting necessary to determine a fair basis for reimbursement can be comparatively simple; many hospitals will already have had experience with such cost-accounting procedures in connection with other Government programs. Once a per diem charge has been agreed upon, the hospital will need only to submit accounts of the patient-days of service furnished to insured persons and be reimbursed for those services at the agreed per-diem rate by the insurance fund. Insofar as the hospital provides insured persons with additional services or more expensive facilities than those available as insurance benefits, it will collect the charges for such services directly from the patient or his family. If the insurance benefit is only a limited payment (so many dollars toward each day of hospital care) and the hospitals have only a limited-credit contract with the insurance system, the hospital would need to submit a bill for the patient-days furnished.

A hospital which does not wish to enter into a service contract with the insurance agency may agree to accept the assignment by an insured person of his right to a cash benefit, in complete or partial payment for hospital services. In this case, the hospital will need only to bill the insurance system for the assigned amounts, and collect the remainder from the patient. A hospital which does not wish to enter into any arrangement with the insurance system will only need to continue giving patients or their families receipted bills for payments.

Hospitals having out-patient clinics and an associated staff of physicians and technicians will in many cases want to enter into agreements with the insurance agency to be reimbursed not only for hospital care but also for general and special medical services, lab-

oratory services, and possibly dental and nursing services furnished to nonhospitalized persons, or for some of these classes of service. If they have such arrangements with the insurance system, they will bill it according to the terms of the agreements.

In communities with several or many hospitals, each hospital may prefer to deal with the local insurance office directly; in others, some or all of the hospitals may prefer to deal indirectly through the medium of a common representative, a local hospital council, a Blue Cross plan, or a hospital association.

### **Health insurance as seen by other practitioners**

The preceding pages have dealt primarily with physicians and hospitals. This course was followed only for the sake of simplicity. With variations in detail, according to the nature of the service or commodity provided, dentists, nurses, laboratories, pharmacists, optometrists, or others furnishing services or commodities as insurance benefits would establish relations with the insurance system similar to those described for doctors and hospitals.

Individuals and groups who wish to participate in providing services or commodities under the program will, like physicians and hospitals, have opportunity to make their interest known to the insurance agency and to give evidence of their ability to meet the standards applicable to their field. The contact between the insured person and the practitioner providing service will follow accepted professional patterns. In the case of dentists furnishing general dental services, access would be direct as in the case of the physician. The dentist will presumably have the same choices as to methods of payment as are open to the physician. Home-nursing services and laboratory services would ordinarily be available only when requested by an attending physician. Nurses will, for the most part, continue to be on the salaried staffs of nursing organizations and the insurance fund will ordinarily pay for nursing services through such organizations; some nurses, however, may be on independent contractual arrangements.

### **Health insurance as seen by the community**

The health insurance system has special importance both for those receiving and for those providing medical care. If it is to be fully successful, the system must therefore live and grow as a community undertaking.

One of the first steps the local administrative agency will need to take in getting health insurance into operation will be to create



a local community advisory council. The members of this council should, of course, include representatives of the insured persons and representatives of the medical, dental and nursing professions, of the hospitals, etc. It should also have among its members community leaders concerned with general or special local health programs or informed as to methods of providing adequate health services. This council would confer with and advise the local administrator on all important policies and problems relating to the operation of the program. It would also serve as the focus for community interest in high standards of medical care, and as the interpreter to the community of the objectives and procedures of the health insurance agency. The council may well provide the leadership necessary to fuse into a coordinated program the activities of the health insurance agency and of other agencies, public and private, having an active interest in health matters.

### In conclusion

Health insurance itself is primarily a mechanism through which individuals pay for medical care, and through which doctors and others providing care receive payment for their services. By removing the barriers of cost between potential patients and their doctors, dentists, nurses and hospitals, health insurance becomes a means of assuring more adequate health care for the insured population. Its achievements will be limited, however, unless the people in the community, in addition to participating in health insurance administration, take the necessary steps—whether through private or governmental action—to see that there are adequate hospital and other facilities available, that the community-wide, public health services are adequate, and that health education through the schools and other agencies stimulates interest and understanding in prevention and early care.

Health insurance provides a mechanism for bringing to individuals and families in communities throughout the Nation the medical knowledge and skills we now possess and the new medical discoveries of the future—discoveries which the insurance system can advance through its support of research, and which it can help disseminate among the professions by its support of professional education and training. Through health insurance, the people of a community and a nation can thus make it increasingly possible for the doctors and the members of the allied professions to provide modern medical care of high quality for all who need it. Whether in the local community or in the Nation, the program will be fully successful only if there is mutual recognition of the respective re-

sponsibilities of the people and the professions to see that the system works to these ends.

## MEDICAL CARE AND THE AMERICAN MEDICAL ASSOCIATION

R. L. Sensenich, "New Medical Care Programs and the American Medical Association," *Health Insurance in America*. Second National Conference on Social Security, U. S. Chamber of Commerce, 1944.

GOVERNMENT aid should be extended in the provision of medical facilities in areas where need is determined. In the determination of that need the local community should have a voice and should have the control and operation of facilities thus provided.

II. The indigent should not be included in any plan of insurance even though payments be made by the government, because of the abnormal concentration in that group of the congenital defectives, crippled and chronically ill. Those who have insufficient income to live properly under healthful conditions would also fall in the same high liability group. Both would become unfair burdens upon the pooled funds contributed for insurance purposes by those living under average conditions with normal nutrition, reasonably healthful conditions of employment and normal housing.

The economic needs of this group should be met from general tax funds. The American Medical Association is now giving thought to the problem of the chronically ill. Many of these patients should have treatment not available in the home. Many require nursing care that is beyond the physical capacity of the family to provide. Probably some new kind of institution will be necessary to meet this need. The long duration of chronic illness makes it impossible to take care of them in hospitals whose facilities are necessarily geared to the needs of acute cases.

A better approach to the problems of the indigent can no doubt be worked out through cooperation of the responsible public officials with the medical profession. The statement frequently repeated that one third of the public are unable to have needed medical care because of insufficient in-

come is a broad generalization based upon economic variables that change constantly. Certainly it is not true now and there are so many undefined and changing factors that it could not be proved at any time. It is noteworthy that in the group of those of reported low income were many millions of small farmers who obtain almost all of their living needs from their farms. Among them, in areas studied, indigency was almost unknown and health and comfort levels were high despite the small income in money. At any rate, such economic disability as actually exists in the group should be adjusted from an economic basis and not be placed as a burden upon the shoulders of others under some misleading type of insurance. Incidence of illness is influenced greatly by economic status, nutrition, clothing, housing and conditions of employment. Economic causes of illness require economic treatment and are not corrected by medical treatment of illnesses that will recur as a result of continuing economic causes.

III. Those of lower income who are able to pay for ordinary medical service but find any serious illness difficult to finance.

This group is normally employed; their living conditions approach that of the average and their contributions to an insurance pool is for the purpose of meeting extraordinary costs due to prolonged illness and disability. The contributions of this group to insurance funds and the hazards of illness among members of the group which will result in demands on those funds are substantially equal. To them insurance offers a useful mechanism for providing for budgeted payments in advance of needs and the equitable distribution of the entire cost. This is the group who have expressed the greatest interest in sickness insurance. Many of them would probably purchase such insurance at once if they were contacted by a dependable insurance company.

This group has in substantial majority expressed opposition to any compulsory government insurance plan.

IV. This group is made up of those to whom the ordinary incidence of illness does not constitute a hazard of extreme hardship. Those of this group who wish to avail themselves of insurance protection find it possible to do so with private companies and are obviously not in need of government help.

The American Medical Association has approved of the use of insurance to protect against the hazards of illness but has consistently opposed the establishment of compulsory government insurance. The reason for this opposition can be briefly stated. The profession is interested in maintaining the highest quality of medical service and it has opposed any proposals that would lead to deterioration of service. Government controlled medical service is

dependent upon regimentation of the public and the medical profession. The bureaucratic administration which develops as a part of governmental control must inevitably lead to standardization of service at a minimal level. Standardization is never at the level of the superior work but must always be made low enough to include that of lesser quality. The minimal standard thus tends to become the average level.

Those who advise government compulsory insurance plans repeatedly use for public appeal the "need for medical care by those who cannot pay for it." Although, as pointed out, the indigent group cannot in fairness to others be included in any insurance plans. However, the proposed government compulsory plans for prepayment by insurance methods do not permit the individual to use the insurance funds to which he is entitled, to purchase needed medical care. To the contrary, government possession of the insurance funds is apparently to be used as a means to secure government control of all the conditions under which the medical service could be provided.

It is an idle statement to say that under such plans the individual could still have his own choice of physician when the conditions of bureaucratic medicine would not be acceptable to a portion of the best physicians and they would not therefore be available to him.

The statement that personal interest and confidential relationship between physician and patient is not important betrays a lamentable lack of understanding of emotional factors and of psychosomatic manifestation of illness and consequently the essential helpfulness of the confidential personal adviser—his physician.

It is not realistic to say that medicine would continue to attract the best minds, if the possibilities for advancement in the profession would have to await the "nod" of some political bureaucrat, or if opportunity and incentive were stifled in the mechanics of a governmental structure.

It is a distortion of facts to point to the remarkable work of the medical profession of the Army and Navy in war as an evidence that a regimented method for medicine is superior or more desirable. It must be recognized that all but a very few of the medical officers of the armed forces are civilian doctors nearing middle life who are applying their skills acquired in civilian training and experience to the treatment of the unusual exposures and physical and mental wounds of war.

At the conclusion of the war these physicians and patients will return in full agreement that although regimentation is necessary in the Army it is undesirable in civilian life. As a more American,

wholesome self-reliant method of securing protection against the cost of unusual or serious illness for those to whom that protection is desirable, the American Medical Association and its constituent associations are endeavoring to be helpful in securing protection for them through familiar insurance mechanisms. Medical associations have no desire to enter into the insurance business and private insurance companies should find this a desirable field of new business. If private companies are not interested at costs within the capacity of the individuals to pay, mutual and cooperative efforts will no doubt increase. Other methods may be found.

Benjamin Rush, an eminent American physician, signer of the Declaration of Independence, said in 1790 when political independence had been gained and a new form of government had been established upon a basis of principles new to any government, that there still remained to be developed along those lines, an American economy free from European domination; an American jurisprudence; an American system of medicine; an American orthography; an American plan of education and an American literature.

An American system of medicine of a higher standard than is enjoyed anywhere else in the world has been developed and it continues to progress. The American Medical Association for nearly a hundred years has directed its efforts to the improvement of medical service and the broadest distribution of its benefits to the public.

It now becomes necessary to protect the public by opposing the substitution of an un-American system of medicine with bureaucratic regimentation of patients and physicians, such as would destroy those American qualities of medical service that are most important to health and the American way of life.

The American Medical Association will direct its efforts to still further advancement of medical science and will continue to explore every means of making the best possible medical service available to all the people.

## MEDICAL PROFESSION'S REACTION TO HEALTH INSURANCE

"The Medical Profession's Reaction to Compulsory Health Insurance," Allan M. Butler, *Social Security in America*. National Conference on Social Security, U. S. Chamber of Commerce, 1944.

MEDICINE is only one of the many fields of science in which advances in technology have outstripped the application to social needs. These inadequacies are reflected by popular interest in bettering medical care and by the fact that you have devoted an afternoon to the discussion of Health Insurance. Inadequacies in medical care, of course, exist. The problem has been objectively presented in: The Report of The Committee on the Costs of Medical Care, 1932; the two volume study, *American Medicine: Expert Testimony Out of Court*, 1937; the report of The California Medical Economic Survey of 1938 by Dodd and Penrose (not the abbreviated report published by the California Medical Society in which the conclusions and summary were omitted); the report of the National Health Conference in 1938; and the recent findings concerning the health and medical care of draftees. A frank recognition of these short-comings in our present medical care and a tolerant discussion of means of correcting them is a primary prerequisite to evolving means of providing better medical care in a democracy.

Most students of medical care recognize that the present day organization or rather lack of organization of our medical services is to a considerable extent responsible for the gap between our actual and possible accomplishment.

From an operation standpoint, the individualistic practice of medicine entails an inefficient utilization of doctors and facilities and, thus, a wastefulness that must be shocking to businessmen. Young physicians at their most vigorous time of life sit idle in their offices waiting for patients that do not come, when many individuals are being seen hurriedly in crowded clinics or by older, less vigorous doctors. The partial use of expensive facilities in individual offices adds the cost of idle and reduplicated equipment.

In this day of expensive medicine, it is a widely accepted premise that the average patient should not be expected to meet the

costs of serious illness at the time they are incurred. Yet, the present fee-for-service system of payment expects and demands just that. In so doing, it limits the individual or private support of medical care and places an unnecessary burden of charity on government and private hospitals and doctors. To compensate for this charity work, physicians demand the right to make arbitrary charges with meager knowledge concerning their propriety and with a totally inadequate means of distributing these social collections to the doctors according to the actual charity services rendered. Moreover, hospitals are deprived of an income that might be used to pay the young doctors who now render service to the public without adequate remuneration. Since everyone needs medical attention at many times during his life, a logical budgeting for illness would be accomplished by applying the principle of insurance cost-sharing as widely as possible. Even with an adequate distribution of costs and an efficient organization of medical services, the quality of medicine that can be attained probably will be limited by what society can afford to pay. But so long as good medicine continues to reduce the costs of illness to society, even if it increases the cost per sick individual, what is an impossible extravagance for the individual may become a realizable economy to the nation. No data at hand suggests that application of this principle to medical costs is *per se* either economically unsound or detrimental to the quality of medicine. Yet in the United States its application in an economical manner has met with considerable opposition.

Insurance for hospital care was well under way in 1932. Prepayment medical groups sprang up here and there. The House of Delegates of the American Medical Association in 1933 did not approve the Majority Report of the Committee on the Costs of Medical Care which recommended that medical service be furnished largely by groups of physicians organized preferably around hospitals and that cost of medical care be placed on a group payment basis. In 1934 the House of Delegates adopted ten fundamental principles. One deserves mention here:

Sixth: However the cost of medical service must be distributed, the immediate cost should be borne by the patient, if able to pay, at the time the service is rendered.

The American Medical Association opposed Blue Cross Hospital Insurance as late as 1934.

In the same year the Judicial Council of the American Medical Association reprimanded the American College of Surgeons for promulgating a prepayment plan for medical care at approved hospitals.

The expulsion of Doctors Ross and Loos from the Los Angeles County Medical Association and the California Medical Association, because of their operation of a group prepayment medical service, is one of several such instances that might be mentioned. Subsequent investigation in 1938 revealed that:

The appellants were brought to trial with no definite knowledge of what they were charged; they had no adequate opportunity to defend themselves; they were expelled for some unknown act not appearing in the charges and they did not have a fair trial.

The Journal of the American Medical Association in commenting on medical problems in California stated:

There are continuous efforts to induce county medical societies to organize prepayment medical service groups, but so far these have been successfully discouraged.

The House of Delegates of the American Medical Association in June, 1938, reiterated its ten fundamental principles of 1934, adding the following:

That the American Medical Association adopt the principle that in any place or arrangement for the provision of medical services the benefits shall be paid in cash directly to the individual member. Thus, all direct control of medical services may be avoided.

Then came the National Health Conference, followed by a special meeting of the House of Delegates of the American Medical Association which approved in principle tax-supported medicine for the indigent and voluntary self-supporting prepayment schemes. But the policy of not permitting control over economy and quality of service remained unaltered. Moreover, the means by which a distribution of the costs of medical care incurred by the intermediate low-income groups, who are neither indigent nor financially able to pay the costs of voluntary schemes, was left for future consideration. This is the very group which reports from the American Medical Association's recent survey of medical care show is receiving inadequate medical service. Surely the individuals of this group should not receive care as indigents. If they do, the number of individuals in this and the indigent group would approximate 75 million. They should and can assume a portion of the costs, but they cannot afford most of the voluntary schemes that provide complete medical care of a proper quality.

The rapid increase in medical knowledge and facilities has created a pressing need for an organization of medical service in the interest of economy and efficiency. A sound approach to the problem is provided by the recognition of the validity of two state-



ments which appear paradoxical when considered superficially. First, medical knowledge and science have grown beyond the capacity of the individual physician. Second, eighty per cent of illness may be cared for properly by the general practitioner. On the one hand, there is the recognized specialist trained to apply special knowledge and technique to the diagnosis and treatment of disease; on the other hand, there is the family practitioner who cares for the many illnesses that do not demand special technical knowledge and facilities but, none the less, require a high quality of clinical experience and ability. It is as inefficient to have the highly skilled specialist caring for minor illnesses as to have the family practitioner treating illness that demands knowledge and techniques with which he is not thoroughly familiar.

Attempts to organize medical services must include all aspects of its science, its "art," personal relations, techniques and physical equipment. The inclusion of all these makes the problem of organization difficult. But it need not follow that regimentation is implicit in organization, nor that the family physician will be discarded. He should still care for the eighty per cent of illness for which he is the specialist and by his skill recognize the twenty percent that is best handled by other specialists.

There is a natural and increasing tendency for the recognized specialist to become associated with large clinics. This is probably as it should be. It favors their continued education as well as the economic utilization of assistants and modern expensive equipment. There should be no antagonism between these specialists of the large clinics and the family practitioners. The services of the one supplement those of the other in fields so vast that neither alone is adequate. The former make available to the practitioner diagnostic services and special treatment. They introduce new methods of medical and surgical diagnosis and therapy. They staff teaching clinics, publish results of their special investigations, speak before medical societies, and thus give gratuitously to the general practitioner the new medical knowledge that each succeeding year becomes his stock in trade. On the other hand, many practitioners give much of their time to the clinics, thus providing them with the experience that they alone possess. The mutual dependence of these two groups of physicians is evident. Yet there is a lack of appreciation of their respective roles.

Qualifying professional boards have classified the well-qualified specialists of urban communities by certification as specialists in particular fields of medicine. In spite of this, the fact remains that most laymen have great difficulty in distinguishing between the qualified and the unqualified specialist. Yet during the past few

months representatives of the American Medical Association in considering the Emergency Maternal and Infant Care Program have opposed recognition of a distinction between the provision of ordinary obstetric and pediatric care by physicians possessing professional qualifications as specialists in obstetrics and pediatrics and by physicians having no such special professional qualifications. At the same time, these representatives have advocated that payments under this program be made as cash payments to mothers, not physicians. Thus, once again, they are violating the fundamental principle that the collection and disbursement of large sums of other people's moneys must be supplemented with a responsibility for their prudent and economical use. This responsibility obviously is removed if all control over the effectiveness of the expenditures is denied.

Moreover, in spite of the ardent advocacy of free choice of physician by the American Medical Association and its constituent State Societies, the representatives of several State Societies wish under this program to restrict free choice to individual private practitioner care by denying mothers the right to freely seek medical care from organized medical groups, such as clinics or hospitals, that are well suited to provide a high quality of service economically. Equally informative of the medical profession's attitude is the fact that 420 doctors in Maryland, for example, are caring for patients under the program as voted by Congress in spite of the opposition of the so-called representatives of organized medicine.

The so-called organized medical profession still limits even voluntary prepayment schemes to rather circumscribed patterns, which much evidence suggests do not meet the needs of economy and high standards. Within the past few years it has opposed the development of Group Health Association, Washington, D. C., in a manner that was judged by the Supreme Court of the United States to be contrary to our accepted laws of free enterprise. It opposed the White Cross Health Service of Boston and, as you know, it more recently has opposed the development of the Kaiser Health Service on the West Coast.

Why does the medical profession appear to be opposed to insurance-financed integrated group practice? A logical explanation might be the following:

First, as indicated even by this brief review, the societies representing organized medicine do not permit the expression of a minority opinion. The majority opinion is considered the unanimous opinion. The book, *The Political Life of the American Medical Association* by Garceau, Harvard University Press, 1941, explains the manner of accomplishing this without openly transgressing

democratic principles. Unfortunately, this restriction of minority opinion inhibits considered discussion and the development of sound progressive thought. Hence organized medicine is notoriously reactionary.

Second, most of the other medical societies are composed, for the most part, of the physicians who are working in clinics, hospitals, research and teaching institutions. They are concerned almost wholly with clinical and scientific medicine and are not concerned with the economic or organizational aspects of medicine. Therefore, their journals provide no means for expressing opinions regarding these latter matters. As a minority group in the societies of organized practitioners, this group of doctors is permitted no opportunity to express publicly its opinions through the channels of organized medicine. This statement does not apply to hospital and public health association journals, which have been far more liberal in presenting various points of view.

Third, in so far as the American Medical Association and its constituent State and County Societies are composed largely of individualistic fee-for-service practitioners, they may both naturally and honestly oppose a development of medical services that changes their system. An example of the attempt of representatives of such societies to suppress discussion and inhibit activities by physicians is furnished by the proposal in 1938 of the Council of the New York State Medical Society to amend the by-laws as follows: "The component county medical societies, their officers, committee-men, and members shall not initiate any policy, propose any legislation or participate in any activities that are contrary to the policies of the Medical Society of the State of New York." Fortunately, this was so objectionable to liberal members and to the inherent individualism of many physicians that the amendment was not accepted.

Thus a possible explanation is that the official attitude of organized medicine derives from a greater interest in perpetuating a time-honored system of medical practice than in providing better and more economical medical care.

But whatever the explanation, it should be remembered that it does not necessarily reflect the considered opinion of all doctors. Whether it reflects the best interests of the majority of the consumers of medical care or even of the medical profession remains to be seen.

It can hardly reflect concern for quality and economy of medical care, for it opposes the very type of insurance service best suited to such ends. Those of you who are familiar with the clinic, hospital, social service, nursing and occupational therapy services associated with such institutions as The Johns Hopkins Hospital can readily

conceive the exemplary and economical care that could be provided under an integrated insurance medical service operated by such a hospital and its staff. At long last the majority of patients receiving medical care from such a hospital would not be classed as indigent and the physicians providing the care would receive the compensation deserved. The needed extension of hospital service to home care could be accomplished without treading on the toes of private practitioners. Certainly the time is long overdue for the voluntary development of such services. And it is imperative to economy and the preservation of high standards of teaching and practice and to the advancement of medical knowledge that any National Health Program provide for the development and full utilization of such integrated hospital services.

### **What is the public's reaction to a national health program?**

Instead of participating in tolerant consideration and constructive criticism, some organizations are appealing to emotion and prejudice by raising the Hitlerian cry that the evils of Communism are about to destroy the standards and quality of American medicine because insurance medicine under the supervision of our democratic government may limit our private individualistic fee-for-service practice.

The propaganda implies that the fee-for-service system has made our medicine what it is today. What are the facts? The research that has led to new medical knowledge has been accomplished for the most part by individuals working on a salary basis in university, foundation and government laboratories. New knowledge has been introduced to medical practice by the doctors employed in the large city, county, State or large private charity or non-charity hospitals. Most of the advances in preventive and social medicine represent the accomplishments of State and Federal Departments of Health.

The same propaganda charges that the essential personal relation between doctor and patient depends on the perpetuation of private individualistic fee-for-service medicine. To be sure, in the United States this has to some extent been true. But why? Not because this type of practice particularly favors this relationship; but rather because the restrictions placed on clinic and hospital medical services have given very little opportunity for the development of such a relationship. As already indicated, there is no valid reason, other than the opposition of physicians, why these limitations should continue.

Many Americans react violently to bringing the federal govern-

ment into a national health program. They do so though the federal collection of the insurance funds is in the interest of economy; though federal control of broad policies is in the interest of efficiency and high standards; and though administration of services is to be decentralized and at the local level. It is odd that in spite of the fact that we boast of our representative government, we unhesitatingly refer to it as corrupt and incompetent. In fact, it is believed to be so dishonest and inefficient that an important political concept is that our government should be as ineffectual as possible so that it will do as little as possible. No wonder the totalitarian states thought little of our ability to function on a national scale. And yet our national government faced with the present emergency has directed our war effort with extraordinary ability.

Not only does this bill entail "government" but also "compulsion." People in this country of a free government react to that with equal violence. One may well be puzzled by what is voluntary and what is compulsory under a representative democracy.

We yearly experience the trials incident to the successful raising of the prescribed Community chests. Solicitors call on us in our offices and in our homes. Names of individuals with the amounts donated are published. Probably the adequacy of your and my contributions are commented upon at teas and luncheons. We all agree that our donations fall under the category of "voluntary."

Our freely elected Congress and President years ago enacted an income tax law. Yearly we comply according to the specific rates applied. Is that compulsory or voluntary? Is it totalitarianism or an example of the smooth functioning of democracy?

Our same freely elected representatives after public discussion may extend the existing social security laws to provide for all persons, access to, but not compulsory use of, essential medical and hospital services according to their medical needs. Is that autocratic compulsion or an expression of the free will of the majority in a democratic society? Is that un-American or as American as our democratic system of education, where both support and use of service entail compulsion?

These questions deserve tolerant consideration. For the health and suffering of the people of the United States and the cost of their medical care are a direct concern of our government and a reflection of the character of our democracy.

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## CHAPTER VII

# RELATED SOCIAL SECURITY PROGRAMS

"It is sometimes said that, now that the State is undertaking such large and growing responsibilities in the fields of education and welfare, the work of voluntary organizations must correspondingly decline . . . but . . . the more the State does, the greater should be the spontaneous response from the citizen through his own organization."

"New times bring new problems and new opportunities. . . ."

ANNUAL REPORT, *The National Council of Social Service, (Great Britain), 1944-1945, p. 6.*

"The existing scheme of workmen's compensation has conferred benefits and has certain merits. If the conclusion is reached now that that system should be superseded in a unified Plan for Social Security, this conclusion rests not on a denial of any good in the present system, but on the possibility of replacing it by a better system. Neither in this, nor in any other field should the good be allowed to be the enemy of the better."

*Beveridge, W. H., SOCIAL INSURANCE AND ALLIED SERVICES. The Macmillan Company, New York, 1942, p. 36.*

## INTRODUCTION

JUST AS THERE WERE social security programs in operation prior to the enactment of the Social Security Act in 1935, so, too, today, there are a number of social security programs outside the Act. Still other programs are being proposed as additions to, or modifications of, existing programs.

This chapter contains readings relating only to programs of a government character either existing or proposed. Because of the large number of public plans covering special groups, especially in the retirement and health fields, only five programs

are discussed in the limited space available in this chapter. These five programs are: disability insurance (temporary and permanent), workmen's compensation, the railroad social security programs, public assistance, and children's allowances.

Although there does not exist any nation-wide program covering the risks of nonoccupational temporary or permanent

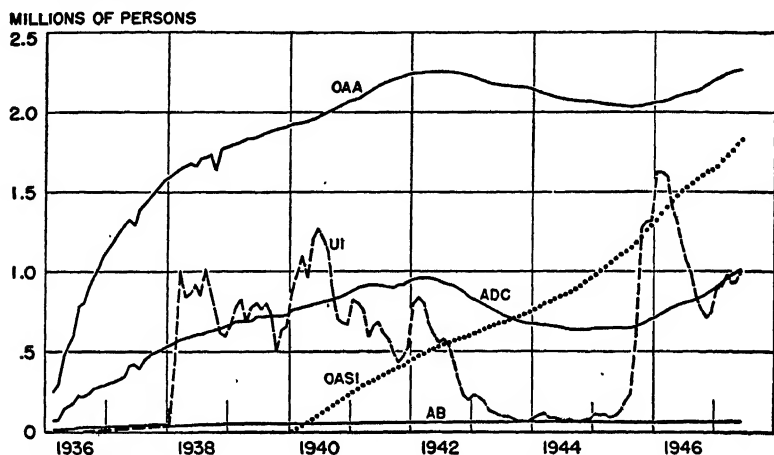


CHART 4. Social insurance beneficiaries and public assistance recipients under the Social Security Act, February, 1936-June, 1947. AB: aid to the blind. ADC: aid to dependent children. OAA: old age assistance. OASI: old age and survivors' insurance. UI: unemployment insurance.

disability, three states and the railroad employees already have coverage of temporary disability and many retirement plans of employers, public and private, as well as the veterans' programs, contain provisions for permanent disability. Legislative action in the fields of temporary and permanent disability is most likely to occur during the next few years.

Cash benefits for sickness or disability must be distinguished from health insurance, which deals with medical services. It is for that reason that disability insurance has not been included in Chapter VI dealing with medical care and health insurance. The American Medical Association is not opposed in principle to compulsory disability insurance although it is opposed to compulsory health insurance. Although there are many inter-relationships between disability insurance and health insur-



ance, there are many problems which are inherent in each program separately.

Many of the public provisions for social security have a very close relationship to private provisions. In California, for instance, the state temporary disability insurance law permits "contracting out" by firms when the sickness benefits in the private plan exceed those provided in the state plan. Some 7,500 private pension plans now supplement the old age insurance program. Union and employer health and welfare plans (discussed in one of the readings in Chapter III) also supplement social security or provide protection with respect to risks not yet covered by legislation. In various proposals for health insurance it has been suggested that local voluntary medical service arrangements provided by unions, consumers, employers, medical societies, or similar groups could supply the medical services outlined under the national or state plan.

The railroad social security program now consists of a retirement and disability insurance program first enacted in 1934; an unemployment insurance program enacted in 1938; and temporary disability insurance and survivors' insurance programs enacted in 1946. These programs are administered entirely on a Federal basis. The original law of 1934 (which was held unconstitutional) and the subsequent laws of 1935 and 1937 were enacted with the joint support of railroad employers and railroad labor. The 1946 amendments, however, were supported by railroad labor and opposed by railroad employers, whereas the 1948 amendments were enacted with the joint support of both groups.

The railroad programs raise a number of fundamental questions on the one hand and practical problems on the other. Should governmental social security plans be established on an industry-wide basis? How can a separate and different schedule of contributions and benefits for railroad employees be coordinated with the general social security programs for industrial employees? In what respects should provisions in social security legislation for railroad employees be the same as, or

different from; social security legislation for other groups generally?

There are many laws providing income maintenance to veterans and their families and for health and welfare purposes. These laws are, in effect, social security programs for veterans and their families. Veterans have both "health insurance" and "socialized medicine"; as well as pensions, disability and old age benefits, life insurance, and other programs.

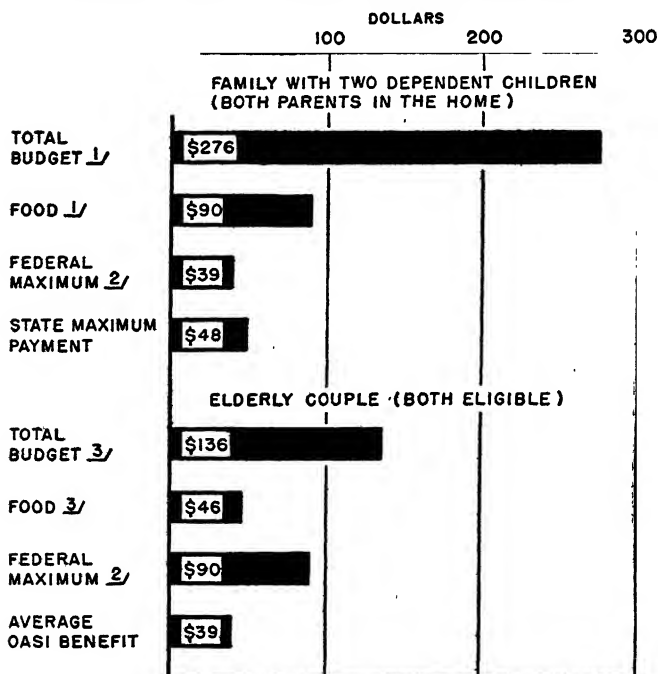
The pension and disability programs for veterans also raise certain basic questions. Should veterans and their families be guaranteed a minimum income from social security, through veterans' programs, or from both programs simultaneously? Should veterans or their families always receive higher benefits than non-veterans? Under existing veterans' law, for instance, an aged veteran can draw \$72 a month, and a veteran's widow with five children can draw \$160 a month compared to \$85 under the insurance features of the Social Security Act. If families receive both benefits, the question then arises, when military service is credited under social security plans, what adjustment, if any, should be made when a veteran or his family receive veterans' benefits based upon the same period of military service?

Similar problems of inter-relationships arise with respect to social insurance benefits and workmen's compensation. All states now have some form of workmen's compensation. In order to assure that there will be no gaps or overlaps in various benefits it is necessary to make specific provisions in social insurance laws or proposals to achieve such objectives. For instance, proposals for payment of social insurance benefits to persons permanently or temporarily disabled must be coordinated with permanent or temporary disability benefits under workmen's compensation. This is not an easy task because of the different levels of benefits, the different sources of the revenues for the benefits, the different administrative organizations, and the different philosophies in the programs.

One of the problems requiring further study is the fact that cash workmen's compensation benefits for temporary unem-

ployment due to sickness or disability differ from the cash benefits for temporary unemployment due to loss of a job or to nonindustrial sickness or disability. Although all these various benefits have been enacted by the states, very little consid-

**INDIANAPOLIS: MONTHLY COST OF TOTAL BUDGET AND OF FOOD COMPARED WITH ASSISTANCE PAYMENTS FOR AN ELDERLY COUPLE, AND A FAMILY WITH TWO DEPENDENT CHILDREN, AND WITH AVERAGE OASI BENEFIT FOR AN ELDERLY COUPLE, JAN. 1948**



<sup>1/</sup> CITY WORKER'S FAMILY BUDGET, BUREAU OF LABOR STATISTICS.

<sup>2/</sup> MAXIMUM ASSISTANCE PAYMENT IN WHICH FEDERAL GOVERNMENT PARTICIPATES; FEDERAL SHARE SLIGHTLY OVER 50%.

<sup>3/</sup> BUDGET FOR ELDERLY COUPLE, SOCIAL SECURITY ADMINISTRATION

CHART 5.

eration has been given to the inter-relationship of the benefit levels. In some states the benefits are higher in one program, whereas in other states the opposite is true. Different methods of computing wages and benefits as well as different minimum and maximum benefits are used in the various programs in the same states.

With the passage of the Social Security Act in 1935 the Federal government undertook responsibility for sharing in the cost of assistance to special groups requiring long-time and expensive care—the needy, aged, dependent children, and the blind. Through grants-in-aid to the states, the Federal government matches (within certain limits) the amount paid by the state to these individuals. The programs are administered through state agencies in accordance with state plans submitted to and approved by the Social Security Board. Each state is free to decide the level of living which it will use in determining whether an applicant is needy.

Marked differences in the resources of the states have resulted in wide variations among states in public assistance payments. Unlike social insurance, fulfillment of all the various eligibility requirements for public assistance does not assure automatic receipt of aid. Poorer states, which are generally those with predominantly rural population, have often had insufficient funds to meet, on the basis of their own established standards, their share of the need of all who are eligible for public assistance.

The social security system in the United States is unique in a number of different ways. The United States has developed the most comprehensive system of any country in the world of private social security protection by means of private insurance, supplementary company pension plans, union health and welfare plans, and similar programs. It also has one of the most extensive programs of veterans' pensions, unemployment insurance, and related social security programs for veterans and their families. Cash assistance payments to needy individuals based upon an individual determination of need are very extensive in the United States as compared with other countries. Finally, the United States is the only important English-speaking country in the world which does *not* provide for some sort of cash children's allowances. In order to appraise the total social security protection available to individuals and their families in this country it is therefore necessary to look at all of the arrangements that exist for the purpose of providing such

security whether they are public or private, comprehensive or piecemeal, or voluntary or compulsory.

The social security system of the United States may be compared to a mosaic—or perhaps, better still, a jigsaw puzzle—which one must view in its entirety and in perspective if one is to see the whole picture. There are striking gaps and overlaps which will become apparent when the entire picture is studied. In addition, differing and sometimes conflicting principles are apparent in different programs. It becomes a more difficult, although perhaps not an impossible, task to rationalize the principles and objectives of the various programs as well as to insure maximum protection at a minimum cost, economic and efficient administration, and sound results advantageous to the individual and his family as well as the nation as a whole. The selections in this chapter should be read in conjunction with the selections in other chapters, particularly Chapters III and IX, in arriving at a well-rounded picture of social security in the United States.

### *DISABILITY AMONG GAINFULLY OCCUPIED PERSONS*

I. S. Falk, Barkev S. Sanders, and  
David Federman, Bureau of Re-  
search and Statistics, Social Se-  
curity Board, Memorandum No.  
61, 1945.

THE UNITED STATES has no facilities for obtaining substantial periodic information on the extent of disability in the population as a whole or among workers generally. Fragmentary information is available on disabilities which result from injuries and diseases due to employment; but these are only a small fraction of the total. Special sickness or disability surveys, made occasionally or carried on over a period years, provide data which can be used in estimating the amount of disability in the general population and among gainfully occupied workers. The experience of private insurance companies and of social insurance systems, here and abroad, provides further information. In addition, there are other special but limited sources of information which can be utilized. Great care

must, however, be observed to take account of the circumstances under which the data were collected and the experiences which they describe.

### Prevalence of disability in the United States

A national estimate of the prevalence of disability for 1939, which makes use of the findings of the National Health Survey and of other data and adjusts them for recognized limitations, indicates that on an average day of the year there are *approximately* 7 million disabled persons in the United States. These are persons of all ages who, because of defects with which they were born, accidents, or diseases, are unable—temporarily or permanently—to engage in gainful occupation or to follow other normal pursuits. According to this estimate, about 55 per 1,000 persons in the total population are disabled on an average day.

From an economic standpoint, the loss to the community and to the family is all the greater if the disabled person is one who, but for the disability, would have been a worker. The estimated distribution of the 7 million disabled persons according to employment status is shown in Table 1.

TABLE 1

<i>Employment Status</i>	<i>Number of Disabled Persons (in Thousands)</i>
Total.....	7,000
Children under age 14.....	1,400
Employed and unemployed workers (aged 14 and over).....	1,250
Housewives under age 65.....	1,250
All other persons under age 65.....	2,250
Not in institutions, but unable to work.....	1,500
In institutions.....	750
All other persons aged 65 and over.....	850
Not in institutions.....	700
In institutions.....	150

NOTE.—Institutions include mental institutions, tuberculosis sanatoria, and homes for the aged, infirm, and needy. One-half of persons aged 65 and over in homes for the aged, infirm, and needy were assumed to be disabled.

The aggregate decrease in the potential labor force as a result of disability is not  $1\frac{1}{4}$  million persons, as this tabulation might suggest at first glance, but rather about  $3\frac{1}{4}$  million. In addition to the  $1\frac{1}{4}$  million disabled workers, there are those persons with more protracted disabilities who have gradually come to regard them-

selves, and to be regarded, as *permanently* disabled. These persons either have never been able to enter the labor force or have withdrawn from the labor force and ceased to be gainful workers. In the main, the noninstitutional population (especially the males) under age 65 classified as unable to work are such persons; so also are at least all adult males under age 65 who are in institutions. Thus, adding:  $1\frac{1}{4}$  million disabled from among the employed and unemployed workers; about one-quarter million from among the disabled housewives; about  $1\frac{1}{4}$  million of the disabled who are under age 65 (and 14 and over) and who are not in institutions; and about one-quarter million from among those who are in institutions—gives the estimated total of  $3\frac{1}{4}$  million. This is an admittedly crude counting of the disabled in the labor force. However, any errors introduced here are probably within the uncertainties of the data shown in the tabulation.

The distribution of disability cases by employment status is, of course, closely related to the duration of disability. Excepting cases of congenital disability (i. e., disability present at birth), children under age 14 are usually subject only to relatively brief illnesses. The same is commonly true for men and women who are gainfully occupied. Persons who have ceased, because of disability, to be regarded as gainful workers are generally identified with the longer durations of disability. The institutional population also is largely comprised of long-continued disability cases. But these generalizations do not so commonly apply to housewives and to persons past age 65 who are not in institutions. Disability among the latter groups is characterized by substantial proportions of both short-term and chronic sickness.

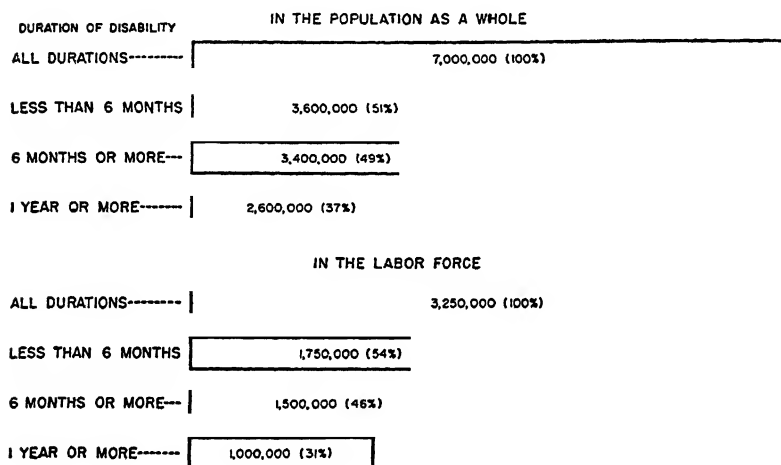
In the first section of chart 1, the 7 million disabled persons on an average day are classified by duration of disability. Slightly more than one-half of the total number who may be found disabled on an average day have been disabled for less than 6 months, while an almost equal number have already been incapacitated for 6 months or longer. For more than one-third of the 7 million disabled, the disability has already lasted a year or longer.

In the second part of chart 1, the estimates show the prevalence of disability among workers and among former or "would-be" workers—persons unable to work by reason of disability. As indicated earlier, the number of disabled among these persons in ages 14-64 has been estimated as  $3\frac{1}{4}$  million, or, about, 6 percent of the total civilian labor force. Somewhat fewer than half of these disabled potential or actual workers on an average day are individuals whose disablement has already lasted 6 months or more. Ordinarily, most of these  $1\frac{1}{2}$  million persons—if they were in the

labor force—have probably withdrawn permanently from the labor force. Disabilities which have already lasted a year or more would be found on the average day among about 1 million of the  $3\frac{1}{4}$  million disabled workers.

CHART 1

PREVALENCE OF DISABILITY: ESTIMATED NUMBER OF DISABILITY CASES  
IN THE POPULATION AND IN THE LABOR FORCE\* ON AN AVERAGE DAY  
BASED ON THE NATIONAL HEALTH SURVEY, FOUR MONTHLY  
SAMPLE SURVEYS, AND OTHER MISCELLANEOUS DATA



\* "In the labor force" includes persons who presumably would have been in the labor force had they not been disabled.

### Some factors which influence the disability rate

The prevalence of disability depends in large part on the personal characteristics of the individuals comprising the general population or the special group to which the statistics apply. Among the factors that are specially important are age, sex, employment, and income.

*Age.* With increasing age, time lost on account of disability also increases. The trend of this increase, especially after the years of childhood, is illustrated in Table 2 which is based on findings from the National Health Survey.

It will be noted that beginning with the age group 15-24, there is a progressive increase in the disability rate with advancing age, the rate rising especially sharply in the most advanced years.



TABLE 2

<i>Age Group</i>	<i>Average Annual Days of Disability per Person</i>
Under 15.....	17.2
15-24.....	10.1
25-44.....	14.4
45-64.....	23.7
65 and over.....	49.3

Statistics on the incidence of cases of sickness and disability show that older persons lose more time through sickness not chiefly because they become sick more frequently, but rather because when they do become sick their disability lasts longer. Older persons are slower to recover from diseases common to all age groups, and they are, moreover, especially subject to types of illness which tend to run a long or chronic course.

*Sex.* Available data tend to show that females experience more disabling sickness than males. Table 3 illustrates differences in the disability rates among males and females. These statistics are based on the findings of the National Health Survey and apply to persons aged 15-64.

TABLE 3

<i>Sex and Employment Status</i>	<i>Average Annual Days of Disability per Person</i>
Males.....	7.5
Females.....	15.4
Gainfully employed.....	11.1
Housewives.....	17.6

According to these figures, females lose as a result of disability twice as much time per year as males. This ratio between males and females would be lower if the comparison were limited to gainful workers of both sexes, because—among other possible reasons—housewives are an older group than gainfully employed women. In any comparison intended to determine differences in disability rates attributable to sex, allowance or adjustment must be made for differences in age distribution between the groups being compared.

It has also to be kept in mind that there are differences in the criteria of what constitutes disability for persons in the labor force,

which includes most of the men, and for those in other pursuits, like housework, which includes most of the women. For example, in two recent surveys, the disability rate among housewives was reported as being several times as large when the surveys asked how many would be able to accept employment if it were offered to them as when the question was merely directed to finding out how many reported themselves as disabled from pursuing their normal activities.

*Employment.* Disability is far more prevalent among unemployed than among employed persons. This is illustrated by the figures in Table 4 derived from the National Health Survey, on the relative prevalence of disability among employed and among unemployed workers aged 15-64.

TABLE 4

<i>Employment Status</i>	<i>Average Annual Days of Disability per Person</i>
Employed.....	6.9
Unemployed.....	15.2

Such data are often interpreted to mean that unemployment is a primary cause of disability, because unemployment is attended by lowered standards or levels of living, reduced access to medical care, and other factors adverse to health. This is partly correct. However, the converse is also correct, namely, that disability is a cause of unemployment. For example, if a person is disabled on the day of a survey and is still reported as having a job at which he is employed, his disablement cannot yet have been of very long duration. But if the disability persists, the individual may lose his job and fall into the ranks of the unemployed. Thus, disability being a cause of unemployment contributes to a high rate of disablement among the unemployed. Later, if the disability persists long enough, the individual may come to regard himself as being not an unemployed worker but as a permanently disabled person who is no longer in the labor force.

*Income.* National Health Survey findings for gainfully occupied persons aged 15-64 present the picture illustrated in Table 5 regarding disability rates for different income levels.

Like the unemployed, those on relief and in the low-income groups are presumed to be a breeding ground for disablement. The figures show larger than average amounts of disability among those on relief and among those having the lowest incomes. Note,

TABLE 5

<i>Annual Family Income and Relief Status</i>	<i>Average Annual Days of Disability per Worker</i>
Relief.....	13.8
Nonrelief:	
Under \$1,000.....	9.1
1,000 to 1,499.....	5.8
1,500 to 1,999.....	5.7
2,000 to 2,999.....	5.7
3,000 to 4,999.....	5.5
5,000 and over.....	5.2

however, that among those in families with incomes of \$1,000 or more, the disability rate in 1935-36 was relatively stable. It is probable that excess disability among workers in families with incomes below \$1,000 results, in part at least, from the fact that family income drops subsequent to a spell of sickness or disability suffered by the family head or by any other income-earning member of the family. Thus, as in the case of unemployment, disability may be a cause as well as a consequence of low income, and the disability rate may reflect this relationship.

*Other factors.* Disability varies to a greater or lesser extent with many other factors, such as marital status, race, occupation, and season of the year.

### **The volume of disability under an insurance system**

The adoption of a disability insurance program is generally followed by an increase in the *recorded* prevalence and incidence of disability. The primary reasons for this are well-understood. In the first place, insurance usually results in a more complete enumeration of the disabled than is obtained without insurance. In the second place, when their income is not insured against interruption through disability, many workers continue to work when they are not really fit to work as judged by medical standards. When an insurance program furnishes substantial, even though partial, reimbursement of wages during periods of disability, these workers are under lesser economic compulsion to stay at work; indeed, they may be under pressure from a physician to abstain from work when they are disabled (within the meaning of disability under the insurance system).

Changes in the recorded prevalence or incidence of disability appear to be associated with the level of insurance benefits as well.

as with the effectiveness of the defenses established by the insurance system to discourage malingering. High benefits and lax administration (especially with respect to the certification of disability) invite high rates of compensable disability; low benefits and strict administration discourage claims and lead to low rates of award.

Also, other things being equal, the rate of compensable disability tends to rise and fall inversely with a nation's economic fortunes. In good years, the groups which stand to gain most from cash disability benefits, such as the unemployed or those threatened with unemployment, comprise only a small proportion of all gainful workers. In less prosperous years, these groups are much larger, and they exert a larger influence on the aggregate volume of compensable disability. Moreover, as already indicated, the size of the labor supply has a direct bearing on the individual's attitude toward capacity for gainful work, and also on his ability to get work to do. When labor is scarce, as at present in the United States during the war, chronically disabled persons and many with physical impairments may be induced by job opportunities and high wages to regard themselves as employable and even to leave a disability pension roll. When the labor supply is plentiful or excessive, the tendency is in the opposite direction.

## TEMPORARY DISABILITY INSURANCE

Arthur J. Altmeier, *Social Security Bulletin*, March, 1947.

UNEMPLOYMENT insurance and temporary disability insurance are alike in that both are intended to compensate workers who are ordinarily in the labor market for part of their wage loss during relatively brief periods when they cannot earn. Coordination of administration of the two types of benefits can effect considerable savings in administrative cost and can simplify administration, as compared with two separate systems, from the standpoint of workers, employers, and administrative staff.

To serve both these objectives, the same wage reports, wage records, and initial determination of a worker's financial eligibility (in terms of his earnings in covered employment in the base period) should serve for both programs. Coverage provisions, the base period, certain eligibility requirements, and the basic benefit formula should also be the same.

On the other hand, disability insurance entails some special

decisions by a State that is contemplating such a program, such as the definition of the disability to be compensated, procedures in determining that the worker is disabled, and so on. Several of these points are mentioned briefly below. A further decision of crucial importance from the standpoint both of the cost of the system and of its value to workers and the community concerns the type of fund to be established—whether, as in Rhode Island, all benefits are to be paid from the State fund built up from social insurance contributions, or whether, as in California, commercial insurance carriers participate in the program.\* This question will be discussed in connection with the costs and financing of a State program.

*Definition of disability.* Under temporary disability insurance, a logical definition of disability is incapacity of the insured wage earner to perform his customary or most recent work without jeopardizing his recovery. Since most spells of disability are brief and insurance payments are made for only a relatively short time, it would be unreasonable to require that a claimant be disabled for any gainful work if he is to receive benefits. For example, a watchmaker with a broken wrist that keeps him from working at his own trade should be considered disabled even though he could perform a job as, say, a messenger.

The disability insurance law should be clear on the course to be followed in claims from pregnant women. The desirable course is to provide benefits to any insured woman who is unable to carry on her customary work, whether or not the cause of her incapacity is pregnancy. In any case, it would be desirable to provide a minimum period of benefits of 6 weeks before and 6 weeks after childbirth.

*Waiting period and benefit week.* In temporary disability insurance, as in unemployment insurance, the waiting period serves to rule out brief periods of inability to earn when the amount of the wage loss is less serious for the worker, and to conserve the funds of the system for the insured persons whose losses are greater. It also gives the time needed by the agency to carry through the operations necessary to pay benefits promptly when due.

Relatively many more spells of disability than of unemployment are limited to only a few days. Of all the spells of a day or more of disability among workers, probably from 75 to 80 percent last less than 8 days. A waiting period of 7 consecutive days would therefore conserve the financial resources of the disability fund, since the many very brief disabilities would be ruled out, while at

\*New Jersey enacted a temporary disability insurance law in 1948 which provides for the participation of commercial insurance carriers in the program.

the same time it would not leave a heavy financial loss to be carried by the worker. The waiting period appropriate in all States, regardless of the provisions in the unemployment insurance law, would be 1 week in a benefit year, equivalent to a week of total unemployment rather than to a week of total or partial unemployment.

The calendar week may be used for benefit purposes in unemployment insurance, since lay-offs are likely to come at the end of the week and since workers can receive benefits if they are only partially unemployed during the week. The beginnings of spells of disability, however, do not follow the calendar. To use a calendar week for the waiting period and benefit week in disability insurance (as in Rhode Island) results in hardship for claimants whose incapacity begins or ends in the middle of a week. A worker who falls sick on a Tuesday, for example, will have to be incapacitated for not only the remainder of that week but also all the week following before he completes the waiting-period requirement—not 7 days, but 12. When benefits are paid only for a full calendar week of incapacity, a claimant who is really well enough to go back to his job by the middle of a week would have an added incentive to wait until the following Monday, for otherwise he would lose compensation for the earlier days when he was actually too ill to work.

It is therefore desirable that the waiting period should consist of any 7 consecutive days of disability and that benefits should be paid on the basis of a flexible week of this type—7 consecutive days of incapacity—with provisions for compensating part-weeks at the end of a spell of compensable disability.

*Eligibility.* To show that he is currently in the labor market, an unemployed worker must register at a public employment office before he can receive benefits, and must also hold himself available for any suitable job that offers. A disabled worker, to whom benefits are payable also on the assumption that he is losing earnings, obviously cannot be required to meet that test of current attachment to the labor market. Because eligibility for benefits is based on wages received in a past period—the base period, as defined by the law—disability benefits may be paid to persons who have been out of the labor force for a considerable time before the onset of their disability.

For example, in Rhode Island, which uses a calendar-year base period, a person who earned \$100 in covered employment in the first calendar quarter of 1945 could claim disability benefits at any time between the first Sunday in April, 1946 and the first Sunday in April, 1947. Rhode Island amended its law in 1946 to require,

as a test of current attachment to the labor market, that a claimant must have been employed or have registered for work at an employment office within 6 months before the weeks for which he claim disability benefits. California, which has an individual base period and benefit year, is using a similar requirement, but within a 3-month period. To safeguard use of the insurance funds for the purpose for which they are intended, it is important that both unemployment insurance and temporary disability insurance should have tests to determine that the worker is actually in the labor force at the time he claims benefits and not rely merely on the evidence that he has been employed at a prior period—his base period.

Also on the principle that the use of the insurance funds is intended for workers whose disability causes actual loss of earnings, an insured worker, though otherwise eligible, should not receive benefits if he continues to draw pay while he is sick or if he is receiving another social insurance benefit (unemployment benefit, old-age and survivors insurance benefit, or workmen's compensation payable for the same incapacity) equal in amount to his temporary disability benefit. In the interest of prompt payment of benefits for disability at the time when the claimant most needs the money, it is desirable to have temporary disability benefits paid to an otherwise eligible claimant even though his incapacity may later be found to have been covered by the State workmen's compensation law. If an award is later made to him under that law, the disability fund would then be reimbursed.

*Claims and certification.* Obviously, provision should be made that a disabled person can file his benefit claim by mail and that others can fill out and sign his claim or other documents if his physical or mental condition makes it impossible for him to do so. Certification by a licensed physician that the claimant is incapacitated for his customary or most recent work is essential, since this is a medical question on which only a physician is competent to rule. In States that require employee contributions, persons whose religious tenets prevent them from consulting a physician may be permitted, as in Rhode Island, to "elect out" of the program—that is, they are exempted from contributions and are ineligible for benefits under the program.

Experience in this country and elsewhere shows that it is desirable to have the medical certification made by the claimant's attending physician and to have medical review of all such certificates by the agency. This practice, which Rhode Island follows, assures consideration of the case by a doctor who knows the patient, while the review (and, if indicated, examination of the patient)

by the agency physician protects the family doctor from undue pressure on the part of the patient or his family, safeguards insurance funds, and helps to assure uniform and equitable policies and decisions on claims.

*Amount and type of benefits.* A worker should not have a financial incentive to claim a disability benefit rather than an unemployment benefit or vice versa. For this reason, and also to simplify and unify administration, the same benefit formula should be used for both purposes. The basic benefit amount must, of course, be less than customary wages so as not to weaken the beneficiary's incentive to get a new job or go back to his job as soon as he can.

The unemployment insurance laws of five States recognize the presumptively greater needs of beneficiaries on whom others are dependent by providing an allowance for certain dependents of a jobless worker in addition to the basic amount to which the individual's past wage record entitles him. Such allowances express the objectives of social insurance by adjusting benefits to take account of the presumptive needs of the individuals concerned. To make additional allowance for dependents enables a social insurance system to meet actual needs effectively without the unnecessarily high costs and other disadvantages that arise if an amount adequate for the claimant with dependents is payable to everyone who qualifies for benefits. For these reasons, dependents' benefits have also been incorporated in the Federal system of old-age and survivors insurance, in certain provisions for veterans, in some State workmen's compensation laws, and in many foreign social insurance systems. The need for allowances for the family of a disabled worker is ordinarily even greater than for that of a jobless worker since, as has been pointed out, the former ordinarily must meet the additional expenses of illness at the time when he is losing earnings. This need is the more urgent when, as under the existing programs in this country, disability insurance is not linked with insurance against the costs of medical care. It is to be hoped that the development of coordinated programs of unemployment insurance and temporary disability insurance will include the provision of dependents' allowances under both programs.

*Duration of benefits.* Under both unemployment insurance and temporary disability insurance the potential duration of benefits should be enough to give most covered workers protection for the whole period of their inability to earn. The two programs differ in one respect, however. While the average length of spells of unemployment differs considerably between good years and bad, the amount and average duration of disability among workers does



not vary greatly from year to year. Payment of temporary disability benefits to any eligible worker for as much as 26 weeks would protect the large majority of persons with valid claims, though, as has been pointed out, it would not solve the subsequent problems of persons with protracted or chronic disabilities, which require insurance against permanent disabilities or invalidity. It is therefore desirable that temporary disability benefits should have a uniform potential duration of 26 weeks. Such a provision would not cause serious administrative difficulties in States that have a briefer uniform duration or variable duration for unemployment benefits.

*Cooperation of interested groups.* As in other areas of social insurance, effective and economical administration can be greatly facilitated by the full understanding and cooperation of the groups directly concerned—workers, employers, physicians and others who deal professionally with sickness and disability, and the general public. Both in working out and setting up a program of temporary disability benefits and in its subsequent operation, a State may make good use of advisory councils composed of members of such groups to aid in furnishing needed information, reconciling the inevitable differences of opinions arising from different viewpoints, and promoting a wider understanding of common interests in the program.

### Financing and costs

*Source of funds.* Both Rhode Island and California finance temporary disability benefits wholly from employee contributions. The Federal temporary disability system for railroad workers, on the other hand, is financed out of the 3-percent employer contribution originally levied for unemployment insurance alone. Temporary disability insurance contributes to the well-being of the community as a whole and of employers as well as of the workers directly protected, since it may be expected to help improve the health of the population, reduce dependency and the need for public aid, and sustain worker morale and the buying power of the community. It is a sound principle of social insurance that all who benefit from the program should share in financing it. Consideration therefore may well be given to having employers and government also contribute toward the costs of temporary disability benefits.

In unemployment insurance, Federal grants to States meet the full cost of administering State unemployment insurance laws that have been approved by the Federal Security Administrator as meet-

ing general conditions specified in the Federal law. The Federal Government does not share financially in cost of the existing State programs of temporary disability insurance. In its concluding annual report, for the fiscal year 1945-46, the Social Security Board reaffirmed its conviction of the undesirability of the 100-percent Federal grant for State administration and proposed as an alternative method a Federal contribution for unemployment insurance if those programs are maintained on a State-by-State basis.

The Board recommended, in brief, a grant-in-aid program under which, after modification of existing provisions of the Federal Unemployment Tax Act, matching Federal grants would be made to States to help pay costs of both benefits and administration of State unemployment insurance laws. If Congress so desires, modification of Federal provisions relating to the financing of State unemployment insurance programs could be developed in such a way as to include Federal participation in financing temporary disability benefits in States that had a coordinated program for both these short-term risks. This participation would express the important Federal stake in national health and economic well-being and in effective efforts to promote these objectives throughout the Nation.

A more comprehensive recommendation of the Social Security Board for a unified national social insurance system, including insurance against all major risks of loss of earnings and also against medical costs, would facilitate not only a consistent and equitable plan for financing temporary disability benefits and other social insurance benefits but also appropriate coordination of the various types of insurance benefits, without gaps or overlapping, and the utmost simplicity and economy in social insurance administration.

*Contribution rate.* The cost of temporary disability insurance will depend on the particular provisions a State adopts, the composition and characteristics of the groups of workers covered, administrative methods and practices, and geographic and other factors. Assuming a waiting period of 7 consecutive days, 26 weeks' uniform potential duration of benefits, a requirement of attachment to the labor force equivalent to that required for unemployment insurance, and weekly benefit amounts equivalent to the State benefits for total unemployment, a State should probably have in sight, for some years ahead, at least annual amounts equal to or approximating 1.5 percent of payroll. Its own experience, coupled with the experience of other State systems, will then be its best guide for future adjustment. Administrative expense may be expected to represent from 5 to 10 percent of contributions or of benefit payments, whichever is higher. In other words, out of each

dollar collected in contributions, 90 to 95 cents would be returned in benefit payments to sick and disabled workers.

Actual experience under the particular provisions of the Rhode Island law showed benefit costs in the first 3 benefit years of 0.86, 1.08, and 1.01 percent of taxable wages in the respective calendar base years. Rhode Island now allocates 4 percent of current contributions (which are 1.5 percent of taxable wages) for costs of administration. Probably such costs would be relatively lower in that State than elsewhere because of its small area and urban concentration of population. California has provided 5 percent of contributions (which are 1 percent of taxable wages) for administration.

*Type of fund.* One major factor determining costs, and in fact the ultimate social value of a system of temporary disability benefits, hinges on the decision as to the type of fund to be established.

A State plan of disability insurance makes protection of covered workers mandatory, but there are different ways of furnishing this protection. The State itself may pay all benefits, as Rhode Island does, from contributions deposited in the State fund. At the other extreme is the recommendation made in 1946 by the New Jersey State Commission on Post-War Economic Welfare, which would require all employers covered under the system to guarantee protection, either as self-insurers or through insurance underwritten by private commercial insurance carriers. The California law follows a middle road: an individual employee may elect exemption from the payroll tax if his employer is insured under a private plan approved by the California Employment Stabilization Commission. Under such an arrangement, in other words, private insurance companies are allowed to participate, subject to certain regulations, in insuring non-industrial disability, and persons who choose to take out commercial insurance with such companies are not obligated to contribute to the public system.

The object of temporary disability insurance, as of any social insurance, is to provide basic protection to covered workers and to provide it at the lowest possible cost. If commercial insurance carriers take part in the program it is impossible to achieve this second objective—insurance at the lowest possible cost—and it will be more difficult to assure basic protection of all covered workers. Workers have an especially important stake in the decision on the type of fund to be adopted if, as under the present systems, it is they who are to pay for the disability benefits.

Sickness and disability are more common among some groups of workers than others and are most common among the workers whose earnings are lowest and most irregular. If the cost of in-

surance is not to be too great for the groups with the highest disability rates and the greatest need for protection, the risk must be pooled so that contributions from the more fortunate groups help to pay the costs of benefits to the less fortunate. This is the essence of social insurance—the pooling of a risk among a large group of persons who are subject to it so that all have protection at a cost that all can pay.

Private insurance companies, on the other hand, are business enterprises. In order to exist, they must have business that is profitable or is likely to become profitable. They must avoid insuring poor risks, or charge higher rates for such groups, or limit the policies they write for them so as to pay in only the most serious cases and in small amounts. Conversely, they must seek the good-risk groups.

The employees who would choose to "contract out" of a State plan would generally be the good risks who, by doing so, could get a cheaper rate or what appeared to be more liberal benefits under a private contract. The competition of many commercial insurers for the profitable business would inevitably require the companies to refuse poor-risk groups, or drop them as they were discovered, or adjust benefits to premiums in one way or another. The net effect of this situation would be to leave the poorest risks to the State fund. To assure reasonably adequate benefits for these groups in which disability is frequent, the State would have to charge more—possibly double, treble, or even quadruple the contribution rate that would be adequate if all covered workers contributed to the State fund. This difference would be taken as a severe reflection on the State's administration by many persons who did not realize the circumstances.

The effect of contracting out may be seen in workmen's compensation in States that do not have an exclusive State fund. Some employers pay as much as 50 percent of payroll in premiums for insurance against work-connected accidents and diseases; others pay a fraction of 1 percent. The range in rates for nonoccupational disabilities would probably not be as large, but it would certainly be great, and the highest rates would fall on those least able to pay.

In the long run, the effect of such a system would be to use the mandatory force of public law to develop, largely at the expense of low-paid workers in a State, the business of commercial insurance companies. Some of the better-risk groups might pay a little less to a private insurer than they would pay under an all-inclusive State program, or for the same rate might appear to get a somewhat more generous contract, though it appears doubtful whether, on the whole, the groups would get more in benefits.

They certainly would get much less in benefits than they paid in premiums.

In social insurance, any excess of contributions over benefits to the more fortunate groups goes toward lightening the otherwise necessary contribution rates of the less fortunate; under private insurance, it goes toward paying the costs of underwriting the business, which are high, and toward profits or other purposes. Rhode Island is administering temporary disability insurance for 4 percent of the premiums collected, and has administered it for less. From April 1, 1943, when Rhode Island began paying cash sickness benefits, to June 30, 1946, when contributions were temporarily increased to build up the diminished reserves of the State fund, the State collected \$14,631,262 in contributions and paid out \$14,979,389 in benefits, with a resultant loss ratio of premiums written to losses paid of 102 percent. By contrast, a recent study for the Social Security Administration showed that in the 5-year period 1938-42 a group of 60 health and accident insurance companies paid in benefits 69 cents of each net premium dollar collected. Many employees are in small establishments that could not well be covered by group contracts and would have to be covered by something more like individual health and accident policies. The same study showed that 226 accident and health insurance companies, group and individual contracts combined, paid to policy holders 52 cents of each dollar of net premiums collected.

It is often assumed that competition for business eliminates the less efficient, but in health and accident insurance such elimination has not been at all rigorous. For more than half the companies for which information was obtained in the study mentioned above—133 companies out of 215 that provided usable information on this point—the return in benefit payments to policyholders averaged only about 38 cents of the net premium dollar taken in—34 cents under individual contracts and 60 cents under group contracts. These companies represented one-fourth of the entire health and accident business and one-fourth of the group business. The companies with the best records returned, on the average, only 68 cents of each premium dollar for all types of health and accident business—59 cents on individual contracts and 76 cents on group contracts.

When the Social Security Act was under consideration, Congress rejected a proposal that it permit contracting out for the old-age and survivors insurance program. In disability insurance also I believe that contracting out would run counter to the objectives of social insurance. The California law contains provisions intended to safeguard the State insurance fund against adverse selection,

but it has not been established that they can operate effectively. I personally know of no feasible method for assuring that the good and the bad risks will actually be pooled, that basic protection will be provided to all covered workers at the lowest possible cost, and that the contributions or premiums paid for temporary disability insurance will go—as they do in social insurance—almost wholly to the disabled.

Moreover, voluntary contracting out, as provided under the California law, will necessarily require more complicated and cumbersome administrative practices than are necessary under an exclusive State fund. Administrative costs will be higher for both the State agency and employers. Unless all their employees are under the State fund, employers would have to ascertain each quarter which employees are thus insured and which are continuing with private insurers. It will be hard for workers, particularly those who change employers, to know their rights. It will often be necessary—and both costly and complicated—to apportion the benefit liability for a claimant among the State fund and one or more private carriers or among several private carriers.

Though the problem is simpler under workmen's compensation, since in that program an employer makes the decision for all his employees, in States where the State fund is not the exclusive insuring agency the administrative expenses are three times as great as those in States with exclusive State funds. Much if not all of this difference is due to the greater administrative complexities that are inevitable when a State fund must operate in conjunction with commercial insurance carriers.

## Conclusion

Coordination of temporary disability benefits with State unemployment insurance programs offers a feasible approach to some of the untouched area of economic insecurity arising from sickness and disability. Such a program can be of very significant value to workers and employers within a State and to the State as a whole. The importance of the program to all groups, however, will depend in considerable part on the soundness and effectiveness of the provisions actually incorporated in the State law—that is, on the establishment of a system that is simple, understandable, and economical of administration, returns fair value to its contributors, and furthers the basic objectives of all social insurance. In formulating the plan for such a program, no decision is more important than that concerning the type of fund to be used in financing and administering the benefits.

## SICK-PAY BENEFIT LEGISLATION

"Major Issues as to Sick-Pay Benefit Legislation," Interstate Conference of Employment Security Agencies, Committee on Related Programs, 1947.

**S**ICK-PAY BENEFITS, by whatever name they are called, provide partial wage-loss compensation for limited periods to workers who are unable to earn their customary wages because of non-occupational accident or illness.

Wage-loss compensation for illness does not involve changes in existing methods of providing and paying for medical care,—even though every type of sick-benefit program needs (and has received) cooperation by the medical profession.

2. The desirability of—and the need for—sick benefits has been widely recognized, to the point where it is now hardly disputed or seriously at issue.
3. It seems clear that the case for compulsory legislation in this field is too strong to be denied for long; and that sickness compensation will be provided for American wage earners generally—by law—within the next 5 or 10 years.

The growing demand by unions for collective bargaining agreements incorporating "health and welfare" plans, including sick benefits, may force an early decision as to whether basic protection in the field of sick benefits should be provided under social insurance laws, or under private arrangements limited to those who are able to negotiate them.

Some 15,000,000 workers—now covered by state U.C. laws—are not covered by existing voluntary sick-benefit plans. Relying on purely voluntary action in this field would leave major gaps in coverage—which could hardly be justified either on grounds of equity or of public policy.

4. All three of America's present sickness compensation laws are administered by the same agencies which administer unemployment compensation.

There is good logic—and real economy—in integrating the administration of these two closely related social-insurance programs, and in using similar substantive provisions at some points—even though cash sickness legislation has its own special problems and will at many points require

different provisions, different procedures and different staffs.

5. State legislation in the disability field, with state administration, seems clearly more desirable than a uniform national program enacted and administered in Washington. However, there will be continuing pressure for national action, as a complete substitute for state action, unless the states satisfy the public demand for sick-benefit protection by law.
6. If federal stimulation of state action is considered at a future date, it should avoid federal purse-string control of the substance and administration of state laws.
7. To summarize Rhode Island's 5-year experience, that state has done a creditable job of administering a rather generous program of sickness compensation—especially considering the major handicap of miserably inadequate administrative funds during its early years.

In brief, California's program has gotten a very good start. Its most distinctive feature is that it permits state-supervised private plans as an alternative to the state-operated program.

8. The cost of a state program of disability benefits will depend mainly on three sets of factors:—(A) the benefit provisions of the state law; (B) the effectiveness of administration; and (C) various economic factors, such as the age and sex distribution of the workers covered.

If a state law carries reasonable benefit provisions, and assures effective administration, its total costs should be relatively moderate.

So-called "cheap" administration is really costly—in the disability field, as in unemployment compensation and in many other government functions. Adequate and effective administration is well worth paying for; and will save more than its cost—by preventing improper benefit payments. In other words, "cheap" administration is really "penny-wise and dollar foolish".

9. Workers will be asked to finance the bulk of the cost for disability benefits. But employers might well pay a small additional amount—thereby continuing the practice already set under voluntary plans, helping to finance a somewhat more adequate benefit program, and assuring employer interest and participation in the practical application of the program. In that event, serious consideration should also be given to experience rating, at least so far as the employer's contribution is concerned.
10. There are three main types of compulsory legislation—to



provide sick-benefit protection—which a state might enact. They differ primarily as to whether there should be:—(a) an exclusive state-operated program, with no “contracting out” permitted; or (b) an exclusive system of state-supervised private plans; or (c) both a state-operated program and state-supervised private plans.

There is room for state experimentation in this field; and no conclusion is reached by this report—as to the relative merits of the three alternative types of state legislation.

- 11, 12, 13. But the “pro and con” arguments are set forth, as to each of the three alternative types of state legislation.

### **Other important problems of initial legislation and administration**

Apart from the major issues discussed in Part II, there are a number of other important problems, connected (A) with the content of any disability law and (B) with planning for its operation, which must be considered.

#### **A. In the field of *legislation*:—**

1. The first problem is that of deciding what employees are to be protected by the law. It is recommended that coverage, at least at the beginning, be made identical with the State unemployment compensation coverage.

2. Next is the definition of what constitutes “disability” for benefit purposes. The definition used in both existing laws is recommended as basic, namely, that the individual be deemed disabled if he is unable to perform his regular or customary work because of any illness or injury.

3. The payment of benefits during pregnancy is an important factor in the cost of a cash sickness system, and must be carefully studied.

4. The formula for determining what weekly benefit amounts to pay, and how long they will be paid, is also important. It is recommended that the same benefit formula as that for unemployment compensation be adopted, even though an alternative approach, based on the practice of insurance companies, has features worthy of note.

5. The statutory provisions as to the conditions of eligibility for sickness benefits, and the reasons for disqualification from receipt of benefits, must be carefully considered in drafting a statute. Because claimants for disability benefits are not able to visit agency offices in person in most cases, different eligibility provisions from those for unemployment compensation must be provided. The differences

between Rhode Island and California with respect to these matters are reviewed, and some of their implications pointed out.

6. The length of the waiting period, and whether or not a waiting period will be required in every spell of disability, must be decided in drafting a sickness law. It affects not only benefit costs, but also administrative loads.

7. Whether to pay benefits only for full weeks of disability, or to pay also for single days of disability beyond the waiting period, is a question which also has an important effect on the cost of the system.

8. The importance of the physician's certificate, which constitutes the only means by which a state agency can determine the fact of a claimant's disability, is a factor which should be stressed. There are some differences between the Rhode Island and California laws on this matter, and their implications are discussed.

9. Obviously, a sick-pay law must provide for the taking and hearing of appeals, and some of the problems which might be anticipated in drafting a law are discussed.

B. In the field *administrative problems* which must be resolved before a law can start operating:—

1. The cooperation of interested groups must be enlisted, especially that of the doctors who certify to disability.

2, 3, 4. Then arrangements must be made for staffing the system, for developing operating procedures and forms, and for making work-load estimates as a basis for deciding working space and equipment problems.

5. Finally, the state agency must take active steps to see that the public is properly informed about the disability benefit law and its operation.

## PERMANENT AND TOTAL DISABILITY INSURANCE

Report to the Senate Committee  
on Finance from the Advisory  
Council on Social Security, 80th  
Cong., 2d Sess. Washington: Gov-  
ernment Printing Office, 1948.

INCOME loss from permanent and total disability is a major economic hazard to which, like old age and death, all gainful workers are exposed. The Advisory Council believes that the time has come to extend the Nation's social-insurance system to afford protection against this loss.

There can be no question concerning the need for such protection. On an average day the number of persons kept from gainful work by disabilities which have continued for more than 6 months is about 2,000,000. The economic hardship resulting from permanent and total disability is frequently even greater than that created by old age or death. The family must not only face the loss of the breadwinner's earnings but must meet the costs of medical care. As a rule, savings and other personal resources are soon exhausted. The problem of the disabled younger worker is particularly difficult since he is likely to have young children and not to have had an opportunity to acquire any significant savings.

Present methods of protection against income loss from permanent and total disability are not adequate. More than 60 life-insurance companies offer such protection, but few individuals purchase it. The cost is high, the terms on which it is sold are restrictive, and most life-insurance companies no longer follow aggressive sales policies with respect to permanent and total disability insurance. Workmen's compensation affords protection against work-connected disabilities, but less than 5 percent of all permanent and total disability cases are of work-connected origin. Special programs provide disability payments for limited groups such as veterans, railroad employees, and some Federal, State, and local employees. In a high percentage of the total cases, however, the disabled worker exhausts his own resources and becomes dependent upon public assistance. Few persons, even those receiving moderately high salaries, can accumulate enough to support their families during prolonged periods of income loss. Social insurance seems the only practical and adequate method of preventing dependency from income loss resulting from permanent and total disability.

The Council recognizes the difficulties in extending social insurance to cover permanent and total disability. Unless adequate safeguards are established, the possibility of receiving monthly disability benefits over extended periods may lead to some unjustified claims and induce some beneficiaries to resist efforts to restore their capacity to work. In certain types of cases, disability may not be easily and reliably determined. The Council also appreciates that the number and duration of disabilities reflect somewhat the state of the labor market and may increase as unemployment rises. We are aware that in the past many life-insurance companies have had unfavorable experience with disability insurance. In our opinion, that experience is important but not conclusive.

The Council is also aware that the low levels of disability benefits paid by some foreign countries affect the usefulness of their experience as a precedent for the American program. Other countries,

however, have successfully administered systems paying benefits at least as high in relation to average wages as those proposed by the Council. The experience of some 40 foreign countries with programs of permanent and total disability insurance offers much that is valuable for America. Nevertheless, the United States must of necessity pioneer in the kind of disability program adapted to its needs just as it has had to pioneer in other areas of social insurance in designing programs to meet special American conditions. Experience which will be valuable in the development of the American program is provided by workmen's compensation, commercial insurance, and the several special programs for veterans, railroad workers, and public employees, as well as by the foreign social-insurance systems.

The Council is strongly impressed with the seriousness of the problems created by permanent and total disability and with the social disadvantages of compelling the victims of this misfortune to depend upon public assistance. We believe that there is enough administrative ability in our Government organization to provide effective machinery for meeting this pressing social need. In view of the admitted administrative difficulties in undertaking the payment of such benefits, however, the Council recommends a highly circumscribed program. More progress will be made in the long run if the persons responsible for operating the program have an opportunity to develop experience under relatively favorable conditions.

We believe further that it would be desirable to establish a public advisory board to counsel with the Federal administration particularly during the early years of the operation of this new program. Such an advisory group could assure that a variety of viewpoints are considered in the formulation of policy. The advisory group might appropriately later review and make recommendations on the conduct of operations and the extent to which the program achieves its purpose. The estimated level-premium cost of the program recommended by the Council would be only about one-tenth to one-fourth of 1 percent of pay roll and in the early years would be considerably less. Furthermore, these costs would not constitute a wholly new expense since the cost of providing for the permanently and totally disabled is now met to a considerable extent by public and private assistance and institutional care. For instance, in January, 1948 about 80,000 persons were receiving aid to the blind, and payment for aid to dependent children went to the families of about 100,000 disabled men. A substantial percentage of the approximately 375,000 family heads and single individuals receiving general assistance are disabled.

### Summary of major recommendations

*Eligibility requirements.* To qualify for benefits, a disabled person would have to be incapable of self-support for an indefinite period—permanently and totally disabled. He would have to be unable, by reason of a disability medically demonstrable by objective tests, to perform any substantially gainful activity. This requirement would eliminate the problems involved in the adjudication of claims based solely on subjective symptoms.

We recommend that a waiting period of 6 months be required and that benefits be payable only in those cases in which, at the end of the waiting period, the disability appears likely to be of long-continued and indefinite duration. This requirement is much more exacting than the disability provisions of commercial insurance policies now being issued, which specify that a total disability that has persisted for 6 months will be presumed to be permanent. The definition as a whole constitutes a strict test of permanent and total disability, which would operate as a safeguard against unjustified claims.

To assure that disability benefits will be available only to workers who have suffered income loss by reason of disability, we recommend that strict eligibility requirements be adopted to test both the recency and long duration of an individual's attachment to the labor market. To be eligible, a worker would need a minimum of 40 quarters of coverage, would have to have one quarter of coverage for every 2 in his working lifetime after 1948 in covered employment, and would have to show employment during at least one-half the time within the period immediately preceding the onset of his disability.

*Amount of benefits.* The same benefit formula recommended for old-age and survivors insurance is proposed for the disability insurance program. The Council does not recommend, however, that benefits be provided for dependents of the disabled worker. If these were provided, there is the possibility that disability benefits in some cases might prove attractive enough to discourage return to gainful work after recovery or rehabilitation. Thus the benefits under the disability program when the worker has dependents would be substantially less than those we propose for old-age and survivors benefits. They would be as much as one-half the average monthly wage only in the case of workers who averaged \$75 a month or less, while the average benefit for all workers would be only about 30 percent of the average wage. (See table at the end of recommendation 3.)

*Provisions for rehabilitation of disabled workers.* The Council recommends that contributions be made from the Federal old-age and survivors insurance trust fund toward the expense of rehabilitating beneficiaries on the disability rolls. A substantial number of beneficiaries can be rehabilitated and become self-supporting. The national economy will benefit from the restoration of their earning capacity, and the cost of the insurance system will be reduced because the disability benefits of persons who have been rehabilitated will be terminated.

*Termination or suspension of benefits.* Benefits should be denied when the beneficiary refuses to undergo a medical examination or reexamination and should be suspended when he refuses to cooperate in his rehabilitation. Payments should also be suspended for any period for which workmen's compensation is payable under a State or Federal program.

*Integration with old-age and survivors insurance.* Permanent and total disability insurance and old-age and survivors insurance should be administered as a single system. Aside from the similarity of risks, considerations of administrative efficiency and economy make the integration logical. Integration would also facilitate the maintenance of the benefit rights of disabled workers for purposes of future old-age and survivors insurance payments.

If the administration of the two programs is integrated, the facilities already established under old-age and survivors insurance for maintaining individual wage records, the network of old-age and survivors insurance field offices, and the administrative machinery for awarding benefits and certifying claims could be adapted to the requirements of the disability program with relatively minor adjustments.

### The method of social insurance

The Council is strongly of the belief that the foundation of the social-security system should be the method of contributory social insurance with benefits related to prior earnings and awarded without a needs test. As stated in our report on old-age and survivors insurance:

Differential benefits based on a work record are a reward for productive effort and are consistent with general economic incentives, while the knowledge that benefits will be paid—irrespective of whether the individual is in need—supports and stimulates his drive to add his personal savings to the basic security he has acquired through the insurance system. Under such a social insurance system, the individual earns a right to a benefit that is related to his contribution to production. This earned

right is his best guaranty that he will receive the benefits promised and that they will not be conditioned on his accepting either scrutiny of his personal affairs or restrictions from which others are free.

Public assistance payments from general tax funds to persons who are found to be in need have serious limitations as a way of maintaining family income. Our goal is, so far as possible, to prevent dependency through social insurance and thus greatly reduce the need for assistance.

The Council believes that the permanently and totally disabled worker—as well as the aged worker or the dependent survivors of a deceased worker—should not be required to reduce himself to virtual destitution before he can become eligible for benefits. Certainly there is as great a need to protect the resources, the self-reliance, dignity, and self-respect of disabled workers as of any other group. The protection of the material and spiritual resources of the disabled worker is an important part of preserving his will to work and plays a positive role in his rehabilitation.

### Recommendations

2. *To be eligible for permanent and total disability benefits, an otherwise qualified individual should be required to meet strict tests of recent and substantial attachment to the labor market. He should be required to have (a) a minimum of 40 quarters of coverage, (b) 1 quarter of coverage for every 2 calendar quarters elapsing after 1948 (or after attainment of age 21 if that was later) and prior to the first quarter of total disability, (c) 6 quarters of coverage within the 12 quarters preceding his disability, and (d) 2 quarters of coverage within the 4 quarters preceding his disability.*

Permanent and total disability benefits should be paid only to those who have suffered a loss of earnings by reason of total disability. To determine whether such a loss has occurred, both the recency and substantiality of the individual's attachment to the labor market should be tested. In keeping with the objective of establishing a carefully circumscribed and restricted program, the proposed test is an exacting one.

The requirement of 6 quarters out of the last 12 (comparable to currently insured status under old-age and survivors insurance) plus 2 quarters of coverage out of the last 4 is designed to exclude persons, such as housewives, who have retired from the labor market before the onset of disability and consequently have not incurred any loss of earnings because of their incapacity. Under this requirement, it is true, some persons who did suffer genuine losses because

of disability might be prevented from qualifying if their total disability had been relatively slow in developing and they had been unemployed for more than 2 quarters because of partial disability. In view of the large number of withdrawals from the labor market each year, however, and the difficulty of determining in many cases whether or not the worker has withdrawn or is only unemployed, a requirement of very recent earnings is needed.

A strict test of long-term attachment to the labor force is proposed as evidence that the disabled worker has contributed substantially to his own support over a long period of time. A worker should be required to have a minimum of 40 quarters of coverage and 1 quarter of coverage for every 2 elapsed calendar quarters in his working life-time (after 1948) up to the first quarter of total disability. This requirement would prevent individuals with congenital disabilities and those who have not regularly been gainful workers from qualifying. For all persons who qualify, there would be convincing proof both of the will to work and of the ability to earn income over a substantial period of time.

In some cases of total disability it will not be clear immediately whether the disability will be of long duration. It would be both unfair to the claimant and administratively wasteful to require that a person forfeit the opportunity of having insured status calculated as of the time of onset of disability because he had not filed application and undergone official examination at that time. Determinations of the existence of a total disability retroactive for strictly limited periods would be feasible and should be allowed. On the other hand, provisions requiring medical determination retroactive over long periods of time would involve serious administrative problems and uncertainties, increasing as the time of alleged onset of disability becomes more remote from the date of medical examination. The Council believes that a reasonable limitation on retroactive determinations would be 6 months before the date of application. Inevitably, under such a limitation, workers who unduly postpone filing their claims will lose insured status. This requirement seems necessary, however, to avoid the complications and difficulties involved in determining retroactively over a long period the date of the beginning of permanent and total disability.

2. *Benefits should be paid to an insured individual who is permanently and totally disabled. A "permanent and total disability" for the purpose of this program should mean any disability which is medically demonstrable by objective tests, which prevents the worker from performing any substantially gainful*



*activity, and which is likely to be of long-continued and indefinite duration.*

*Qualified individuals should be eligible for permanent and total disability benefits after a waiting period of 6 months. The first benefit should be paid for the seventh month of disability.*

The definition of "disability" used in a disability program will in large part determine the feasibility of administration and the costs of the program. The proposed definition is designed to establish a test of disability which will operate as a safeguard against unjustified claims. It is an administratively practicable test and it will facilitate the evaluation of permanent and total disabilities.

The Council recommends that compensable disabilities be restricted to those which can be objectively determined by medical examination or tests. In this way, the problems involved in the adjudication of claims based on purely subjective symptoms can be avoided. Unless demonstrable by objective tests, such ailments as lumbago, rheumatism, and various nervous disorders would not be compensable. The danger of malingering which might be involved in connection with such claims would thereby be avoided.

Total disability lasting more than six consecutive calendar months should be considered permanent if the disability is diagnosed as likely to be of long-continued and indefinite duration. Periodic medical reexaminations, as well as other checks and safeguards which will exist in the system, may be relied upon to discover cases in which a beneficiary has recovered. The period of 6 months is recommended because it is sufficiently long to permit most essentially temporary conditions to clear up or show definite signs of probable recovery. The claims payable after the 6-month waiting period has expired would be only those involving long-term or chronic conditions.

The great majority of persons applying for permanent and total disability benefits will have had no income during the waiting period. Only two States now provide temporary disability benefits and no benefits are payable to persons who are incapacitated for work at the time they file claims for unemployment insurance benefits. Only a limited number of workers have short-term disability protection in some other form, such as commercial insurance policies. Consequently, the waiting period—constituting as it does in most cases a 6-month period without income—would make it very unprofitable for would-be malingerers to give up work and attempt to qualify for benefits.

The concept of permanent disability which the Council envisages should be defined in legislation only in broad terms and

should be worked out in detail through regulations. We do not believe that mere duration of a total disability for 6 months should give rise to an automatic presumption of permanency, as is generally the case with commercial insurance policies offering permanent and total disability protection. On the other hand, we would not limit benefits to the cases in which it is certain that the disability is, in the strictest sense of the word, permanent. In some cases which are to all intents and purposes "permanent," physicians are nevertheless reluctant to designate the condition as incurable, both because of the psychological effect on the patient and because recovery is theoretically possible. Most systems using a concept of permanency have found it necessary to presume permanency in cases of long and uncertain duration and to subject claimants to periodic reexamination to determine whether they have recovered. Such an approach prevents the extreme hardships which would result from the denial of benefits in many cases of total disability which continue indefinitely, perhaps for years, but which cannot with certainty be adjudged "permanent."

Since the objective of disability insurance is to compensate for loss of earning capacity, payments should not be made for the mere physical impairment, loss of strength, disfigurement, or diseased condition which results from illness or accident. Payments should be made only if the individual is unable to perform any substantially gainful activity.

Some disability insurance plans are based on the concept of compensating an individual for incapacity to work within the area covered under a particular insurance or retirement scheme or within an area of customary employment. With this criterion, an individual who with reasonable effort could obtain employment in a different area, or perform another type of work, may nevertheless be considered disabled. While this "occupational" concept may be justified in systems designed primarily to provide for the retirement of employees when they are no longer able to perform their jobs efficiently, it would not be appropriate for a general social-insurance system. Such a system, financed by employers and employees in wide and diverse areas of employment, should not permit workers to withdraw from the labor market and receive benefits if they have not suffered a loss of general earning capacity. In the best interests of the individual and of the national economy, and in view of the limitation on total national resources available for social-insurance purposes, it is important to utilize any substantial earning capacity that handicapped persons may retain.

The exact limits of what constitutes "substantially gainful activity" should, in the early years of the program, at least, be defined by

regulations. After the program has been in operation, administrative experience will doubtless indicate ways in which the definition can be improved. Leaving the definition to regulations will make it possible to take prompt advantage of that experience. The Council believes, however, that the regulations governing this definition should be strict.

3. *Primary disability benefits should be based on the same formula recommended for old-age and survivors insurance. No benefits should be provided for dependents of the disabled wage earner.*

In general, the needs of a permanently and totally disabled worker are at least as great as those of a retired worker. In many respects the burden of disability is even greater than the burdens created by old age or death. These facts speak strongly for providing disability benefits similar in types and amounts to payments provided for retirement and death cases. Payments should not be high enough, however, to encourage persons on the border line of total disablement to seek benefits or to malingering when total disability has ceased to exist. The incentive for beneficiaries to return to work when possible is a very significant factor influencing the costs of a disability program. This incentive might not exist if the worker on the disability rolls could receive, in the form of benefits payable on his wage account, too high a replacement of his earnings loss. In keeping with the Council's view that stringent provisions should be established, it would seem desirable to restrict disability payments to the primary insurance benefit payable to the worker himself. No dependents' benefits, such as those under old-age and survivors insurance, should be payable to the wife or minor children of the disabled worker. The proposed restriction on the types of disability benefits payable would mean that benefits would amount on the average to about 30 percent of the worker's average

DISABILITY INSURANCE BENEFIT AND ITS RATIO (PERCENT) TO  
SPECIFIED AVERAGE MONTHLY WAGES UNDER THE  
ADVISORY COUNCIL'S PROPOSALS

Average Monthly Wage	Disability Insurance Benefit	Percent of Average Monthly Wage	Average Monthly Wage	Disability Insurance Benefit	Percent of Average Monthly Wage
\$50.....	25.00	50.0	\$200.....	\$56.25	28.1
\$75.....	37.50	50.0	\$250.....	63.75	25.5
\$100.....	41.25	41.2	\$300.....	71.25	23.8
\$150.....	48.75	32.5	\$350.....	78.75	22.5

monthly wage and would in no case exceed one-half of the average monthly wage. As shown in the following table, it would be as much as one-half only in the case of workers with average monthly wages of \$75 or less.

4. *Claims should be disallowed if the claimant refuses to submit to medical examination, and benefits should be terminated if the beneficiary refuses to submit to reexamination. Provision should be made for periodic reexaminations so that benefit payments can be terminated promptly when the beneficiary is no longer disabled. Disability benefits should be withheld if a disabled person refuses without reasonable cause to accept rehabilitation services.*

If an applicant for disability benefits refuses to submit to medical examination required for the purpose of determining whether a disability exists, such refusal should result in disallowance of the claim; if an individual receiving benefits refuses to submit to reexamination, his refusal should result in termination of benefit payments. Benefits should, of course, be terminated if the disability ceases. Provisions for periodic and special medical reexaminations of beneficiaries are essential to the administration of any disability program, but the frequency of reexamination should be adapted to the needs of individual cases. It would probably be desirable that cases be reexamined at least once a year, although some types of disablement may require more frequent checking.

Effective administration and conservation of funds make it desirable that benefits be suspended when refusal to accept rehabilitation is determined to be unwarranted. Together with the proposed requirements calling for termination of benefits on recovery or successful rehabilitation, this would serve to prevent payments when the continuation of benefits is not justified.

5. *Permanent and total disability insurance benefits should be suspended for any period for which workmen's compensation cash benefits are payable under State or Federal programs.*

Workmen's compensation is payable in less than 5 percent of all cases of economic loss due to permanent and total disability. Although the total area of possible duplication is small, an individual should not receive disability payments under more than one program at the same time. If combined payments became a major fraction of prior earnings, the economic incentive for beneficiaries to return to work may be insufficient.

Workmen's compensation reflects society's conviction that part of the costs of industrial accidents and diseases are a responsibility

to be borne by the employer, regardless of fault, and in lieu of any common law liability the employer may otherwise have incurred. Contributory disability-insurance benefits should not take the place of, or interfere with the continuing development of the special programs affording protection against work-connected disabilities.

The most practical approach to the provision of duplication of benefits by State and Federal workmen's compensation systems and the social-insurance system seems to the Council to be the suspension of basic social-insurance benefits for any periods for which cash benefits are payable under workmen's compensation programs. Thus the Federal program would be precluded from making payments in cases covered by workmen's compensation, but benefits could be paid when there was no eligibility for workmen's compensation or when cash benefits under workmen's compensation were terminated. Although disability-insurance benefits would be suspended, an individual's rights to retirement and survivorship benefits would be protected in the same way as if he were receiving the disability benefit. To accomplish the objectives of the suspension provision, lump-sum and commuted benefits paid as workmen's compensation for permanent total disability should also cause suspension of the disability-insurance benefits for a period of time which would be the equivalent of the time the payments would have lasted if made on a periodic basis.

6. *A disabled worker eligible for benefits under both the disability program recommended here and another Federal disability program (other than a Federal workmen's compensation system) should receive only the larger benefit.*

Protection against the risk of permanent disability is provided for railroad and Federal civilian employees and members of the armed services under their special retirement systems. Similar provision is made under laws administered by the Veterans Administration for disabled servicemen and veterans. The benefits provided under these Federal programs are usually substantial since these systems are either staff retirement plans or, in the case of the veterans' program, are designed to compensate for losses incurred in the Nation's defense.

It is important that combined benefits to which some persons might become entitled under one of these special systems and under the social-insurance program should not be so high as to discourage beneficiaries from returning to gainful work when they are able to do so. The Council believes therefore that where there is entitlement under two systems, only the higher benefit should be payable.

At the direction of the Congress, a study should be made to de-

velop cooperative administrative procedures, to draft a plan for equitably financing disability benefits, and to make such other recommendations as are necessary for effective coordination of disability payments under the several Federal programs. Participating in the study should be such agencies as the Federal Security Agency, the Veterans' Administration, and the service departments, and the study should be tied in with those proposed in the Council's old-age and survivors insurance report with respect to the programs administered by the Railroad Retirement Board and the Civil Service Commission.

Undoubtedly, private as well as State and local retirement systems which provide disability protection would have to be modified to avoid unnecessarily high total payments when payments are also payable under the social-insurance disability program.

7. *Permanent and total disability insurance and old-age and survivors insurance should be administered as a single system. Provisions of the two programs should be integrated so that, in computing insurance status and the average monthly wage of a disabled person, periods of total disability will not be counted.*

There are numerous administrative and organizational needs which are common to both an old-age and survivors insurance program and a program for permanent and total disability insurance. Most of the industrial nations of the world have recognized this fact and have established single plans covering both types of social insurance.

Under the permanent and total disability program we recommend, the same wage information will be necessary as under old-age and survivors insurance to determine insured status and the amounts of benefit payments. Administering these forms of social insurance as a single program would permit utilizing for disability insurance purposes the central accounting operations and the field and area office facilities already established under old-age and survivors insurance.

For disability cases, additional techniques and procedures would have to be developed by the old-age and survivors insurance field and adjudication staffs. On the other hand, procedures and techniques already developed under old-age and survivors insurance would apply to many essential phases of disability insurance such as the determination of insured status, the computation of benefit amounts, and the monthly certification of benefit payments. In addition, broad skills necessary for the administration of old-age and survivors insurance, such as those needed in interviewing, investigation, and evaluating evidence, would be of value in the adminis-

tration of a new disability program. There would be substantial savings in administrative costs if the programs were combined rather than separate. Of importance also would be the convenience for the public in having one organization to look to for information on both types of insurance.

Integration of the two programs would also facilitate the maintenance of the disabled worker's average monthly wage and insured status for purposes of retirement and survivor benefits. An insured person now has his average monthly wage reduced during a period of extended incapacity to work and may lose benefit rights entirely if he is not permanently insured. The disability program should contain a provision excluding periods of prior permanent and total disability from the computation of the average monthly wage whenever a subsequent claim is filed on the same wage record. Furthermore, periods of prior permanent and total disability should not be considered in determining currently insured status. This will prevent loss of rights to certain dependents' and survivors' benefits which, under the Council's recommendations for old-age and survivors insurance, would be payable only on the basis of currently insured status. With the two programs administered as a single system, the necessary information regarding the existence and duration of a prior disability would be readily available when needed in connection with old-age and survivors insurance claims.

8. *The effective date for the payment of first benefits under the disability insurance program should be 1 year after the effective date for the extension of coverage under old-age and survivors insurance.*

Assuming that the disability program may be adopted at the same time as broad coverage extension for old-age and survivors insurance, the Council recommends that permanent and total disability insurance payments first be made approximately 1 year after the date of coverage extension. The coverage of farm labor, domestics, self-employed, and others will create new problems of administration, stimulate numerous inquiries, and increase old-age and survivors insurance workloads. It would probably be undesirable for the Social Security Administration to take on both the coverage extension and disability insurance problems simultaneously.

Even if the disability insurance legislation is passed later than comprehensive old-age and survivors insurance amendments, postponement of the disability program's effective date for approximately 1 year from the date of the passage of the disability legislation would probably still be desirable. Such postponement would allow time for the preparation of regulations and procedures, for

the necessary recruitment and training of staff for work in this new field, and for informing the public of its rights in connection with the new type of protection.

9. *Rehabilitation services should be furnished to disability insurance beneficiaries when it appears that the services to be furnished will assist the beneficiary to return to gainful work and so will result in a saving to the trust fund. The services should be furnished through existing facilities, with contributions toward the expense of such services being made from the trust fund. Benefits should be terminated if rehabilitation of the beneficiary has been successful.*

It would be economically and socially sound to provide rehabilitation services for those disability insurance beneficiaries who could be expected to profit by them. While the possibilities of rehabilitation are limited for many permanently and totally disabled persons, the provisions of such services would reduce the ultimate cost of the disability insurance benefits by enabling some beneficiaries to again become self-supporting. It would also benefit the national economy by restoring to it the services of otherwise idle individuals. Physical restoration services, as well as vocational retraining, should be provided; vocational training is of limited value unless it can be supplemented by necessary medical and surgical rehabilitation.

State programs of rehabilitation are already in operation and are coordinated and aided by the Federal Government under the authority of the Federal Rehabilitation Act of 1920, as amended. The existing facilities could be immediately utilized in furnishing services to disability insurance beneficiaries since the currently operated Federal-State programs afford the necessary organization, staffed, trained, and equipped to furnish rehabilitation services on a Nation-wide basis.

Close and complementary relationships should be established between the two programs. State agencies as well as the Federal old-age and survivors insurance trust fund would benefit from such co-operation. The State agencies carrying out rehabilitation would have cases referred to them on the basis of the medical diagnosis and vocational case history developed by the insurance program. The problem of maintenance of the client during rehabilitation, at present a troublesome one in many cases, would be at least partially solved by the disability benefits which would continue to be paid during rehabilitation. Finally, the problem of locating cases for rehabilitation at early stages of disability, also frequently trouble-



some, would be nearer solution because of early referrals by the Social Security Administration.

Contributions toward the expense of rehabilitating insurance beneficiaries should be made from the trust fund only where it is probable that a saving to the fund will result from the rehabilitation. The contributions would, of course, be in the form of payments for services furnished beneficiaries through existing facilities. No services would be provided directly by the Social Security Administration.

Since rehabilitation services are now furnished at the expense of the present Federal-State program, it may be questioned why the trust fund should bear the cost of services now financed from other sources. Several factors make this recommendation appropriate. First, under the present rehabilitation program, before certain services can be furnished, the disabled individual must meet a "needs test," and this requirement might preclude some insurance beneficiaries from qualifying. (The individual must meet a needs test to receive medical and surgical treatment, prosthetic appliances, tools and books, and maintenance.) Second, in many States the funds available for rehabilitation programs are inadequate; contributions from the trust fund would enable them to afford better services to the beneficiaries. Finally, early attention and treatment are of the utmost importance for successful rehabilitation; if trust fund contributions were made, it would undoubtedly be possible for the rehabilitation of insurance beneficiaries to be instituted more promptly than otherwise, thereby reducing the costs of the disability program.

It would seem essential to provide for the suspension of benefits if the beneficiary refuses rehabilitation without reasonable cause. There is considerable precedent for such a provision in foreign disability systems and State workmen's compensation programs. The provision would make for effective administration and conservation of the funds of the insurance system. A beneficiary who has been rehabilitated should have his benefits terminated if the rehabilitation has been successful.

#### **Administration of permanent and total disability insurance**

This section presents a picture of the operation of a disability insurance program as visualized by the Council in arriving at its recommendations. This description is illustrative only and is not intended to prejudge alternative methods of organization and other administrative problems.

Development and adjudication of claims for old-age and sur-

vivors insurance have been decentralized to field offices throughout the Nation; supervision of the field offices has been delegated to regional staffs; and broad authority for the activities incident to the payment of claims is carried by area offices in various parts of the country. This pattern of operations, which can be further localized at any time the volume of claims activity warrants, has brought old-age and survivors insurance into intimate contact with claimants in their own towns and with employers and the general public as well. The central administration of the system is limited to activities essential to supervising the establishment and reasonably uniform application of Nation-wide policy. The Council believes that a similar degree of decentralization could be achieved in the administration of permanent and total disability insurance.

Every claimant for permanent and total disability benefits will have to undergo a medical examination as a first step in the determination of the existence of disability. In many cases it would be unnecessary or impractical to conduct these medical examinations in Federal facilities, although where such facilities exist (for example, those of the U. S. Public Health Service and of the Veterans' Administration), they could be used to the extent available. Contract arrangements could be made with private physicians, clinics, and State and local hospital facilities in all parts of the country to perform such examinations for the social-insurance program. General practitioners as well as specialists would no doubt furnish their services on a fee basis for this purpose, much as they now perform examinations for other Federal agencies as, for example, the Bureau of Employees' Compensation, the Civil Service Commission, and the Veterans' Administration. Consistent with the decentralized pattern of old-age and survivors insurance operations, relationships with the local medical profession would be carried out through regional or area medical representatives. These representatives would be concerned with liaison and instructional work with examining physicians; consultation with the field offices on special problems in claims development, and, in unusual cases, decisions on whether a claimant should undergo additional examinations by specialists or observation and tests in a hospital.

After medical examination has established the nature and extent of the claimant's disability, his condition would be evaluated in terms of its effect on his capacity for substantially gainful activity, and all the evidence in the claim would be subject to determination. This process would probably be carried on in the various area offices after an initial period of centralized determinations. If it is determined that the claimant is permanently and totally disabled, a decision would be made concerning the frequency of reexamina-

tions. Periodic medical examinations, confirmed by results of special field investigations in any doubtful cases, would provide the basis for reviewing a case whenever it appeared that a change in conditions might call for termination of the benefit.

When a disability claim is filed, or in any event at the time of medical examination or claims adjudication, any disabled person for whom rehabilitation appears possible would be referred to the appropriate State rehabilitation agency. Each State now has a rehabilitation program operated with Federal aid and administered by the Office of Vocational Rehabilitation. The State agency, as a rule, could observe the beneficiary's progress for the social insurance system, and benefits would be stopped when rehabilitation was completed. If a claimant was reluctant to undergo rehabilitation, he would know that provisions of the Federal program would require a suspension of his disability benefits for refusal to accept rehabilitation.

Under the method of Federal operations described, various relationships with State and local interests would bring local viewpoints to bear on the program. The Council believes that this can be a very important factor in preventing abuses of the system. It is highly desirable that the administration of the program be responsive to local and regional viewpoints. On the other hand, there are distinct advantages in the fact that the permanent and total disability insurance program would be far enough removed from local influence to be free of the pressures which might result in widely divergent local standards and concepts. The Council believes the recommended program can be administered to achieve a desirable balance of interests and influences.

#### **Actuarial cost estimates for permanent and total disability benefits (Appendix A)**

Estimates of future costs of permanent and total disability benefits to be added to the old-age and survivors insurance system are affected by the same factors arising in connection with the estimates for old-age and survivors insurance as outlined in the previous report on that subject. In addition there are certain other factors which enter in, principally, (1) the probability of a person's becoming disabled and eligible for benefits—a factor that varies by age and sex; and (2) the probability of such a disabled person's continuing to receive benefits, with termination depending on the events of death, recovery, or attainment of age 65 (and hence eligibility for old-age retirement benefits)—a factor that varies by sex, age at disability, and duration of disability.

A relatively wide range in disability cost estimates is necessary because there are no available experience data on a social insurance system that pays disability benefits of the type under consideration and at the level presumed. Moreover, it is difficult to estimate the effect of the four types of insured status requirements on the number of persons who will be eligible at various periods in the future.

It is estimated that the level premium cost of the disability benefits proposed will be about one-tenth to one-fourth percent of pay roll. These figures include not only the actual cost of disability benefits to disabled individuals under age 65 but also the additional cost for old-age and survivor benefits resulting from "freezing" the disabled individual's insured status and average wage.

Considering the disability benefit costs of various future years as related to pay roll, it is anticipated that the trend will level off after a relatively short time—perhaps in 20 or 25 years. In the early years of operation the benefit outgo will be very small because of (1) the natural slow growth in building up a benefit roll; (2) the stringent qualifying requirements which for a number of years will exclude most of those who in the past had been primarily engaged in employment newly covered under the system; and (3) the delay in filing, as well as the nonfiling, of claims by persons who are not familiar with the program.

After the program has been in operation for a few years, the number of new disability claims arising annually will range from 20,000 to 50,000, although after perhaps a decade or so, when the full effect of the extension of coverage has made itself felt, this number will rise to perhaps 40,000 to 100,000. Eventually the total number of disabled persons who are on the benefit roll and who are under age 65 will number roughly 300,000 to 800,000. The eventual annual cost of the proposed permanent and total disability benefits as a percentage of pay roll will probably range from somewhat more than 0.1 to possibly as much as 0.3 percent of pay roll; in terms of dollars this corresponds to about 200 to 500 million dollars a year.

When the relatively small cost for disability benefits as set forth above is added to the estimated cost for the expanded old-age and survivors insurance program recommended, the over-all cost is increased only slightly. Thus, including disability benefits as proposed in this report, the level premium cost of the entire expanded program would range from 5 to 7½ percent of pay roll, while the ultimate annual cost after the old-age, survivors, and disability insurance system had been in operation for some 50 years or more, would be about 6 to 10 percent of pay roll. In view of the small increase in costs resulting from these disability recommendations,

there would seem to be no need to consider a special increase in contributions to finance the disability benefits.

## *DISABILITY ASSISTANCE FOR THE NEEDY*

Appendix C. Memorandum of Dissent by Two Members of the Senate Advisory Council on Social Security from a Report to the Senate Committee on Finance. 80th Cong., 2d Sess. Washington: Government Printing Office, 1948.

**T**OTAL DISABILITY should be covered by State assistance programs aided by Federal grants and should not be included in a Federal contributory social-security program.

### *Lessons from life-insurance experience*

A persuasive theoretical case can be made for including total disability benefits in the Federal old-age and survivors insurance system. Total disability is a distressing catastrophe involving serious consequences for those whom it overtakes and for their dependents. However, the way to meet the situation and at the same time avoid many of the pitfalls indicated by life insurance and other experience is on an assistance basis.

In the 1920's a persuasive case was developed for the inclusion of total and permanent disability income provisions in life-insurance policies. There was no doubt that this type of insurance was popular and met a real need. Accordingly, the life-insurance companies issued large amounts of insurance providing the disability income benefits only to learn by hard experience during the depression of the 1930's, involving literally hundreds of millions of dollars of losses, that insurance of this type cannot be issued safely except under severe restrictions as to benefit provisions, rigid selection of risks, high premium charges, the most careful scrutiny of new claims, and an adequate follow-up of those receiving disability incomes.

It is sometimes claimed that the difficulties and losses incurred by the life-insurance companies arose from the overinsurance of well-to-do persons who built up disability insurance coverage to unsound levels. It is true that this was a source of heavy loss. How-

ever, the hazard of the disability coverage was clearly evident in group insurance where the rates of disability during the depression rose to a greater extent than did the rates under ordinary insurance. The group experience is much more significant as a criterion in considering total disability on a contributory basis in a social-security program because it related to wage earners, was issued on a wholesale basis without adverse selection by the insured, and was free from the overinsurance characteristics of business issued on an individual basis.

Some life-insurance companies today sell disability income insurance in connection with life insurance to carefully selected male applicants on a very restricted basis and at high rates in premiums. This fact provides no basis whatever for claiming that all gainfully employed persons could safely be covered for total disability in a contributory social insurance program.

Unfortunately, for reasons analogous in some ways but different in others, total disability benefits cannot be included in a Federal contributory social insurance program with any reasonable assurance that claims can be limited to the type of disability envisaged when the program is adopted. They will get out of hand just as they did in the life insurance experience. The reasons are outlined below.

### **The break-down of the system is most likely to occur in periods of unemployment**

In the prosperous years of the middle 1920's, the life-insurance companies were able to administer the total disability insurance provision with relatively little trouble. Because of the problems inherent in a political system providing benefits available to practically all wage earners in all occupations, a Federal contributory total disability benefit program would probably experience more trouble than the life-insurance companies in periods of prosperity when job opportunities are plentiful. However, very serious difficulties would develop when unemployment began to assume major proportions. Under such conditions, there would be tremendous pressure to attempt to prove disability to the extent necessary to get on the Government benefit rolls. Theoretically it would appear easy to prevent abuse of the system, but practically, as the life-insurance companies discovered, the problem is extremely difficult to handle. The crux of the matter lies in the fact that it is next to impossible to evaluate total disability when there is a determination to attempt to prove that one is disabled in order to obtain a potential life income from the Govern-

ment. Claims exceedingly difficult to evaluate are those where it is alleged that the disability which prevents one from working is of the subjective type that is next to impossible to disprove—for example, the various manifestations of “rheumatism,” feigned or imaginary angina pectoris, and nervous disorders.

Once on the benefit rolls, it would be hard in a large percentage of cases to get the worker to return to his job. An individual's net earnings as a worker after deduction of taxes, union dues, and contributions for insurance benefits, after payment of transportation and meal costs, and purchases of work clothes, would in many instances, not be sufficiently attractive to induce him to return to work as compared with the tax-free disability payments and freedom from other charges. Moreover, being on the benefit rolls would give many persons a welcome sense of security not present in regular employment, especially if they were of the marginal type in ability. Many would prefer a small income with security, to a larger income with what they would consider insecurity.

This would be true because after the period of unemployment which had caused the increase in the number of persons on the benefit rolls, there would be a substantial residue of persons with impaired earning power, whose net earnings if they returned to work, would not be enough more than their benefits, based upon prior earnings records, to make it appear worth while to go back to work. These individuals would do everything in their power to have their disability incomes continued.

Another factor in periods of unemployment that would greatly increase the problem of holding disability claims to proper limits would be the incentive employers would have to lay off inefficient workers who later would be represented as unable to work because of alleged disability. Since the laid-off workers would probably be those whose efficiency was failing, their chances of being employed again at their previous wage levels would be small. Hence their disability benefits, based upon prior wage records, might be very attractive as compared with what could be earned net upon again being employed. The incentive therefore to do everything possible to stay on the benefit rolls would be great indeed. With unemployment insurance as the first, and total disability as an eventual later means of support, the temptation to employers to use the system to get rid of inefficient workers could have very serious consequences.

It might be thought that workmen's compensation would provide guidance in appraising the total disability problem. Unfortunately it does not offer much help. Most workmen's compensation cases arise from accidents and are relatively easy to appraise and adjudicate. The insurance companies have had but little difficulty

in issuing coverage for disability arising from accidents. It is on the health side that the problems described above are encountered.

Many people are working who the doctors will say are near the border line and should stop work. These individuals will be inclined to stop work, and a careful physician will feel obliged to give them the benefit of the doubt and say they are disabled for benefit purposes, when they are not totally disabled at all.

In the disability field the primary problem is likely to be determination of the present or potential ability to do some work, not the diagnosis of a physical condition. Many individuals with an unquestioned pathological condition are earning their support in properly chosen useful work and in so doing are benefited mentally as well as physically. Others in a similar physical condition are supported in idleness by insurance benefits, an independent income or by their families. In cases of this type, which constitute a large proportion of disabled individuals, whether one earns his living or not depends on economic incentives.

Unfortunately experience demonstrates that cash disability benefits operate as a deterrent to rehabilitation. Entirely aside from the problem of over-all cost, any benefit which diminishes the incentives toward rehabilitation and self-support is socially undesirable.

### **Benefits as rights**

A basic difficulty to bear in mind is that in any system supported by taxes specifically levied for the purpose, workers will look upon benefits as rights to which they are equitably entitled.

This will color their fundamental attitude toward the system and intensify their demands for benefits when their disabilities do not warrant their doing so. In taking this position they will feel they are doing what they are equitably entitled to do and are doing nothing wrong. Moreover, if a person thinks someone else has received benefits when no more disabled than he, he will contend for similar treatment for himself.

Though the right to receive benefits is, of course, always limited by qualifying conditions, yet in the worker's mind it is the question of right that tends to be uppermost, while qualifying conditions are relegated to the background. The former will be stressed, and the latter soft-pedaled. When fulfillment of the conditions can be readily verified objectively, as in the case of death or retirement at a specified age, it is not so easy to lose sight of them or to deny their relevance. However, when a substantial measure of subjectivity is involved, as in many types of disability claims, it becomes simul-



taneously much easier for a worker to maintain, and harder for an administrator to deny, that the necessary qualifying conditions are present—and all the more so when the administrator has no strong motive, financial or otherwise, for denying the claim.

The fact that the plan is contributory would not provide a financial incentive for sound administration since the source of the funds would be either the large old-age and survivors insurance reserve fund or general revenues, as indicated below.

**In the federal system there would be strong pressure against, and little incentive for sound administration of claims**

In a system where the payment of benefits depends upon discretion, there is a strong tendency to be generous in the adjudication of claims, especially when the money comes from a reserve fund in Washington amounting to billions of dollars. In the event the Federal Government should bear part of the cost from general revenues, the feeling that the funds for the payment of claims were unlimited would be intensified.

There would also be an incentive to pay border-line claims, arising from a feeling that the money available to the system was going to be used anyhow so that the beneficiaries in a particular locality might as well get their share. Administrators who did a conscientious job and attempted to hold benefits to bona fide claimants would likely be subject to local criticism because their claim rates were lower than those in other communities where lax methods prevailed.

Because the program is operated by the Government, Congressmen are sure to be appealed to for assistance to have claims approved which constituents believe are appropriate, but which in fact are far removed from the total disability classification. Appeals of this kind put conscientious Congressmen in a difficult spot. For those willing to curry favor with constituents at the expense of the reserve fund or of Federal Treasury, as the case may be, the situation offers great opportunities.

It is also clear that in a system where the payment of benefits is dependent upon broad discretionary powers to be exercised by Government employees, there would be opportunity for a national administration to use the system to influence votes. The mere expression of an attitude toward the treatment of claims would be sufficient to determine the votes throughout the whole country of large numbers of beneficiaries, actual or potential, and their families. There would also be wide open opportunity for political favoritism

in handling claims which any political party in power could use with great effect if it so desired.

**A large percentage of covered workers are women (18 million, or 40 percent, in 1944)**

In 1944 over 8,000,000 women were fully insured under the old-age and survivors insurance system and more than half had worked steadily in covered employment for 8 years. Women are the most difficult group to insure against disability. Claims of disability for types of physical ailments that can not be disproved are exceedingly common, e.g., nervous disorders, rheumatism, etc., etc. Life-insurance companies found that out, and except to a negligible extent and under very restrictive conditions, women are no longer offered disability income insurance.

There is furthermore the impossibility in many instances of determining attachment to the labor market. A woman may have worked for years and when unemployment appears, or when she merely wants to stop work and take care of her home, she can quit her job, and after 6 months claim she would like to work but cannot because of physical disability. She can claim she is able only to be around the house and do nothing more. Having paid taxes for disability benefits she will demand them. There would be opportunity for the development of a serious racket in this area; and organizations would spring up to supply individuals with information as to ways and means of making claims which would probably be approved.

All of the foregoing problems are greatly intensified if the woman is married.

### **Costs**

No estimates of costs can forecast the probable drain on the funds resulting from the operation of the forces outlined above.

### **Experience in other countries**

It is sometimes claimed that other countries have blazed the way for the successful inclusion of total disability in a governmental contributory social-insurance program. This type of coverage originated in central Europe. To cite Germany and Austria as examples which we should now emulate will not carry conviction in the United States.

In Great Britain the disability program has heretofore been operated by the so-called "approved societies" in which the benefit

claims of workers were adjudged by their associates whose own benefit rights would be endangered by the improper approval of claims. The Socialist government changed this plan in its recent revision of the British social insurance program, but there has been no experience to indicate that the change will be successful. Furthermore, the benefits under the program have been so low, only 10 to 15 percent of wages on the average, that the incentives to abuse were very much curtailed.

The experience of Central and South American countries cannot be cited as examples we should follow. The social insurance programs of those countries are new and have built up no adequate experience. Many of them were set up by refugees from central Europe operating through the International Labor Office and simply duplicate the thinking of the central European social-insurance bureaus.

Therefore, there is no valid experience to guide the United States in setting up a contributory total-disability program in its social-security system. The project must be appraised by applying the best possible judgment to the particular situations existing in this country.

### **Present proposals as an entering wedge**

It is generally advocated by those favoring the proposed plan for including disability benefits in the old-age and survivors insurance system, that the program be expanded as soon as the initial experience would appear to warrant. The proposed rules for eligibility are quite restrictive and the level of benefits relatively low as compared with old-age and survivors insurance. It has been the general experience that the smaller the benefits in relation to the individual's normal earnings, the lower the rates of becoming disabled. Therefore, given a few years of relatively high employment, the experience is likely, on the surface at least, to appear to contradict the critics and to justify liberalization of the program all along the line. Thus the stage would be set for changes which would bring about the extremely serious consequences described above. The way to avoid them is to seek another, safer solution to the problem.

### **Total disability should be provided for under State assistance programs with Federal grants-in-aid**

In view of the many pitfalls involved in Federal contributory disability insurance, the problem should be met through the de-

velopment of State assistance programs providing for Federal grants-in-aid. This should be accomplished under a plan setting up a new specific category of total disability. At the same time it would be wise to provide for a much more liberal means test than is required in other types of assistance cases. Since wherever possible the emphasis should be on restoring the worker to productive activity, it would be unfortunate to have him and his family reduced to destitution in the process, thus handicapping him in his efforts to again become a useful member of society.

The States already have the vocational rehabilitation agencies that would be essential to the proper functioning of the program. One of the undesirable consequences of plans which pay cash disability benefits as a matter of right, is that they tend in so many instances to cause the individual person to resist the process of rehabilitation. When State agencies handle cases on the basis of need, they have much greater authority in insisting upon rehabilitation.

The States have agencies close to the disabled in their homes, including medical and case work facilities for treating individual cases. They can retrain and rehabilitate many disabled persons, find work for them and render such financial assistance as befits each case. Where institutional treatment is required, State and local institutions already care for many disabled, and this service would be expanded under the proposed program.

In such a State plan the prime emphasis should be on rehabilitation—medical and vocational—rather than on benefits. Rehabilitation should be undertaken wherever there is any indication that it would help the disabled person, and cash assistance should be conditioned on the need for and acceptance of rehabilitation measures. Disabled persons should be well instructed as to the superior value and importance of rehabilitation, so that they would come to realize that the best service the State could render them would be to restore their capacity for self-support, if only in part. As an incentive in this direction there should be assurance of work in a protected labor market (sheltered workshops) for those whom rehabilitation measures cannot fully reequip for a place in the open labor market, or while they are undergoing reconditioning.

A decentralized system of this kind would render unnecessary the extensive organization of Nation-wide facilities under Federal control to provide the medical, technical, and nursing staffs required to handle total disability cases. The country should stop, look, and listen before setting up a far-flung Federal bureaucracy in this area with the wide discretionary latitude in paying benefits which a Federal program would necessarily entail.

It would be much safer to have the system handled by State agencies. Since the local taxpayers' own money would be used in carrying out the program there would be an incentive to administer claims properly which would not exist if the money came from Washington and was dispensed by Federal agents. Benefits could not be considered as rights which had been paid for. Hence doubtful or fraudulent claims could be held to a minimum.

As in all governmental programs there would, of course, be the possibility of political abuse in the State systems. However, it would probably be absent in most States. Where it did creep in, it would not be all in one direction as it would be under a Federal system which would present a ready-made instrument at hand for any party which might desire to abuse it. Under the State systems, different States would tend to cancel each other out politically.

The State systems would not function perfectly from the start. In many instances it would take time for the programs to be developed to a high state of efficiency. However, the presence of Federal grants-in-aid and the setting up of standards would stimulate the process. Furthermore, the substantial enlargement of benefits for the aged and for children proposed under the old-age and survivors insurance system, would before long relieve the States of some of their financial burdens in these areas, and thus release funds for the total disability program.

Total disability obviously would effect a worker's earning record under the old-age and survivors insurance system. It should therefore be provided that the State authorities would certify to the Social Security Administration each quarter during which an individual was totally disabled and receiving benefits or rehabilitation under the State system. Then, in computing the average wage for old-age and survivors insurance purposes, the numerator of the fraction would contain no wages for the quarters of total disability and the same quarters would be eliminated from the denominator.

## Conclusion

The discussion of total disability leads naturally to a consideration of the proper role of a Federal system of contributory social security in a vast country like ours. Among the first tests to be applied is the degree of discretion involved in determining the eligibility for benefits. In old-age and survivors insurance such determination is largely objective, requiring but little discretionary decision. Total disability on the other hand involves a great deal of subjective consideration, both on the part of the individuals

concerned and of those who administer claims. Disability claims vary greatly as to types and circumstances and require widely differing methods of individual treatment.

Because of these subjective characteristics, the handling of total-disability cases belongs peculiarly in the realm of the individual States and not in that of the Federal bureaucracy. Turning over to the Federal Government this area of individual care would mean further encroachment of Washington upon State authority, further building up of the Federal payroll vote and of the potential opportunity to exert Nation-wide political influence in the handling of benefit payments. The fact, as previously indicated, that the Federal plan might be set up originally with strict conditions as to eligibility and with limited benefits would provide little if any ultimate protection. Once on the statute books, continuous efforts would be made to liberalize the eligibility rules and raise the benefit levels. The country would be well advised not to start on this seductive path in the first place.

It would be most unfortunate if, because of budgetary problems, the States should be persuaded to reject a properly devised total-disability-assistance program involving Federal grants-in-aid. A system of this kind would lead to tremendous improvement in the State systems which are now attempting to handle disability cases with but little Federal aid. It would have the great advantage of avoiding the serious and perhaps irrevocable error of providing total-disability benefits to individuals as a matter of right under a Federal contributory program.

## THE MOVEMENT TOWARD WORKMEN'S COMPENSATION

Walter F. Dodd, "The Movement Toward and the Enactment of Workmen's Compensation," *Administration of Workmen's Compensation*, Chapters I and II, New York: The Commonwealth Fund, 1936.

FOR TWENTY-FIVE YEARS two systems of dealing with liability for industrial injuries have existed side by side in the United States. Legislation establishing workmen's compensation in partial substitution for employers' liability in case of negligence may be said to have begun in 1910. In no state has the new institution

completely replaced the old, although there has been a steady expansion of workmen's compensation.

Accidents and diseases are incidental to the processes of industry. The problem of dealing with such accidents and diseases is a permanent one, which may be reduced but which cannot be eliminated by safety devices or by the training of workmen. The machine and the speeding up of modern industry may not, in themselves, increase the number of accidents, but accidents will occur so long as the human being operating the machine fails to reach perfection in his attention to his work and in the timing of his actions.

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By 1910 there had come an almost complete breakdown in the law with respect to the liability of employers to employees injured in the scope of their employment. This breakdown was due primarily to the fact that the courts in the nineteenth century developed rules of liability based upon a small-scale industrial organization whereas industry itself had developed in such a manner as largely to displace small-scale organization and, by such displacement, had destroyed not only the close personal relationship between employer and employee but also the close interrelationship of employees among themselves in the same industrial enterprise. The courts and legislatures sought to meet the new industrial conditions by changes in the law as to employers' liability, but their efforts, although of some value, largely proved ineffective. The employee's remedy for injury in the course of his employment was by suit, but this remedy was ineffective because of the technical defenses of the employer at common law and of the delay occasioned by the congested condition of the dockets of the courts. In many cases, a judgement, if obtained, was not collectable. Moreover, if an employee obtained and collected a judgment, the probability was that half or more of the judgment recovered would go toward expenses and toward contingent fees of an attorney. Many claims, it is true, were settled without suit, but the odds were so much in favor of the employer that there was little inducement toward any settlements favorable to the employee. Employers had come in increasing numbers to insure their risk of liability, and the relationship between employer and employee had largely been replaced by a relationship between an insurance company and the employee. Under the law as it stood, it was, in most cases, not to the interest of the insurance company to settle claims without suit.

### The common law

The general principles of the common law above referred to, as developed by the courts, have given rise to three more or less distinct defenses usually urged on the part of the employer to the employee's claims for compensation for injury. These common law defenses are:

- (a) The Fellow Servant Doctrine.
- (b) Assumption of Risk.
- (c) Contributory Negligence.

At the beginning of the nineteenth century, it had become a well-established principle of the common law that a master was responsible to third persons for injuries inflicted on them by the negligent acts of his servants committed in the course of their employment. The master was considered, theoretically at least, to control the acts of his servants, who were looked upon as his agents. And since the master received the benefits of their service, the courts compelled him to bear the burden of their negligence, when it caused harm to the person or property of another. Had the English and American judges consistently applied this doctrine (known as that of *respondeat superior*) to all classes of third persons, much of the legal history—both judge-made and statutory—of these two common law jurisdictions in the nineteenth century would read far differently.

In 1837, however, the English case of *Priestly v. Fowler* engrafted upon this rule of the common law an exception, whose effect was to endure for more than fifty years thereafter, and which eventually led to drastic statutory changes. A butcher boy's helper was injured through the overloading of a van by the butcher boy. The helper brought a civil suit for damages against his master. The opinion of Lord Abinger, who decided the case, stated that there was no precedent for such an action and that therefore he was at liberty to look at the consequences of the decision. His reasoning was, in part, as follows:

If the owner of the carriage is therefore responsible for the sufficiency of his carriage to his servant, he is responsible for the negligence of his watchmaker, or his harness maker, or his coachman. The footman, therefore, who rides behind the carriage may have an action against his master for a defect in the carriage, owing to the negligence of the coachmaker, or for a defect in the harness, arising from the negligence of the harness maker, or for drunkenness, neglect or want of skill in the coachman; . . . the master, for example, would be liable to the servant for the negligence of the chambermaid, for putting him into a damp



bedstead; for that of the upholsterer, for sending in a crazy bedstead whereby he was made to fall down while asleep and injure himself; for the negligence of the cook, in not properly cleaning the copper vessels used in the kitchen; of the butcher in supplying the family with meat of a quality injurious to the health; of the builder for a defect in the foundation of the house, whereby it fell and injured both the master and the servant by the ruins.

Lord Abinger then held that the inconvenience and absurdity of the consequences he had outlined led him to decide against the servant; that the servant was not bound to risk his safety in the service of his master, but might decline to enter an employment in which he reasonably apprehended injury to himself; and that the servant must have known as well or better than his master of the condition of the van.

This decision, which withdrew a large class of persons from the operation of the rule of *respondeat superior*, came at a period which was witnessing profound industrial changes. By 1837, the steam railway had supplanted the horse-drawn vehicle as a means of long distance travel; factories in textile and other industries were flourishing; intricate and high-powered machinery was coming more and more into use and its products were displacing those of individual craftsmen. It is noteworthy that all the analogies set forth in Lord Abinger's opinion were drawn from domestic service, or from trades essentially of the cottage type, carried on by local artisans; and that not a single example was taken from the large units of industry, such as the factory, the steam railway, or the shipbuilding or mining industries, all of which were being carried on in England at that time. Therefore, the law which was to be applied by the courts to those employees injured through complicated or dangerous industrial processes was based on instances taken from an already dying industrial age.

The *Priestly* decision is also cited as the origin of a second defense open to the employer in industrial injury suits, namely, that a servant, on accepting employment, assumed all the ordinary risks incident to his work. And such was the gist of Lord Abinger's holding, though this doctrine was not enunciated in so many words. The assumption of all usual risks includes the assumption of the risk of a co-servant's negligent acts; the latter rule was the actual holding of the *Priestly* case, when applied to its facts. Shortly after this decision, both in England and America, the courts in reality extended the rule of the assumption of usual risks to cover the unusual or unforeseeable risks as well. The case of *Bartonshill Coal Co. v. Reid* settled the law in England. There the plaintiff, an employee, was injured solely by an engineer's negligent mis-

management of an elevator in which there were neither obvious nor latent defects, and the court held that the plaintiff could not recover.

The first American case involving the rights of an injured servant against his master arose in South Carolina, and the decision was for the master; but the leading American case, *Farwell v. Boston and Worcester R. R. Co.*, was decided in Massachusetts in 1842 by Chief Justice Shaw, considered to be one of the great jurists of his country at that time. A locomotive engineer was injured through the negligence of a switchman in failing to change a switch. The duties of the engineer and the switchman brought them into no personal contact with each other, and the former could not have foreseen or guarded against the switchman's carelessness. The Chief Justice held that since the engineer was not in the relation of a stranger to the railroad, the employer's liability, if any, was governed by the implied contract of employment entered into with the engineer at the time of hiring; and that such a contract "does not extend to indemnify the servant against the negligence of anyone but the master himself."

This decision established the fellow-servant and assumption of risk defenses in America, and was widely cited in English decisions. An American student of industrial problems pointedly inquired why the law assumed that the contract failed to indemnify the employee, since such assumption was out of line with the well-established principle of *respondeat superior*. The answer was undoubtedly to be found, first, in the individualistic tendency of the common law, which took it for granted that an employee was free to contract and was not bound to risk life or limb in any particular employment; and second, in the desire of the judges to encourage large industrial undertakings by making the burdens on them as light as possible. Decisions immediately following the *Priestley* case, and for many years after, frequently pointed out that hazards of industry were taken into consideration in the fixing of rates of wages. An interesting comment on this theory is quoted:

If employers and workmen stood on an equal footing in the negotiation of wage agreements; if the loss of his place were a matter of trivial consequence to a wage earner; if laborers possessed exhaustive knowledge of relative professional risks, and of opportunities for employment throughout the industrial world; if local attachments or the want of means presented no obstacle to removal from Chicago to Honolulu; if a locomotive engineer could, without loss of time or efficiency, transfer his specialized knowledge and ability to type-setting or rail-rolling—wages might conceivably be adjusted to risks. . . . In point of

fact, as things actually are, the occupational hazards appear to have very little effect on wages.

Twenty years after the *Farwell* decision, the defenses of assumption of risk and the fellow-servant rule were firmly settled in England and America as part of the law of master and servant. A third defense, which had already been available to any defendant in a personal injury suit and which was therefore open to a master against his servant, was that of contributory negligence; if a person, injured through the negligence of another, had in any degree contributed to his injury by his own carelessness, he could recover nothing. This tenet had been introduced into the English common law in 1809, and soon became an integral part thereof. If, then, an employee, injured through negligence of his employer, had in any way been guilty of neglect himself, his action was defeated.

What did the law consider to be negligence on the part of the employer? It was recognized by the courts that the master owed certain duties to his servants, the violation of which was negligence. These duties were, in general, to use ordinary care in selecting competent employees to perform the necessary duties and to dismiss those who showed a lack of such qualifications; to provide a reasonably safe place in which to work, and reasonably safe tools, appliances, and materials with which to work; to use ordinary care and diligence in keeping the plant and its appliances in safe condition—in other words, the duty of inspection and repair; and finally to warn the employees, particularly those young or inexperienced, of any unusual defects or dangers and to instruct the workmen how best to avoid them. It might be inferred from this somewhat formidable list of duties imposed on the employer that it would be a simple matter for an injured employee to recover damages at common law. Such, however, was not the case; for the employee must prove by competent evidence a violation of one of these duties by the employer, always a difficult task and especially so for an employee, whose witnesses were usually fellow servants who were loath to testify against their employer. Moreover, the rules as to a master's duties soon became so riddled with exceptions and fine-spun distinctions in the master's favor that their protection to the employee was virtually nullified.

As industrial and commercial enterprises increased in size and complexity with the growth of the factory and the railroads, it was inevitable that the number of industrial accidents, and therefore the number of personal injury suits, also increased. It soon became apparent that the common law defenses of contributory negligence, assumption of risk and particularly the fellow-servant

rule were operating too harshly on the claims of injured workers. The first recognition of this occurred in America, where the courts of several jurisdictions sought to mitigate the severity of the co-servant defense by adopting the "vice-principal" exception. The Ohio court, in 1851, allowed a railway engineer to recover against the railroad for injuries caused by the negligence of the conductor, who directed the movements of the train. The theory of the decision was that the supervising or directing employee was not a fellow servant, but the *alter ego*, or "vice principal" of the master, for whose negligence the master was as responsible as for his own. The courts of several other states followed the Ohio rule; Massachusetts, however, continued to hold that a supervising employee was a fellow servant of those whom he directed, and that the master was therefore not liable for his negligence; and the English courts also refused to recognize the vice-principal exception.

The defense of the assumption of risks of employment was applied by many courts not only to those risks which were ordinary and obvious, but was stretched to cover the hazardous and unpredictable dangers as well. The question soon arose as to whether the employee assumed the danger arising from his employer's violation of a statute passed for the protection of the worker, such as a child labor law or an act requiring certain machinery to be guarded. Ohio, for example, passed a statute requiring railroads to block the frogs and switches on their tracks. A railroad switchman, who had been in the employ of a railroad company for some time, and was therefore familiar with the conditions of his work, was injured because of an unblocked switch. The case was brought before the federal court in 1899, and it was held that to permit the defendant company to avail itself of the assumption of risk defense would be, in effect, to enable it to nullify the statute, and was against public policy. Four years later, however, another federal court took the opposite view. Many state courts followed the earlier federal decision, but a few adhered to the view of the later one. The Court of Appeals of New York at first held that the employee assumed the risk of the employer's violation of the New York factory act; it stated that there was "no reason in principle or authority" why an employee should not be allowed to assume the obvious risks of his work, as well under the factory act as otherwise. Sixteen years later, the same court found such a reason in public policy, and held that it precluded an employee from assuming a risk created by violation of a statute. In this respect, the English courts held that the employee did not assume a risk created by the employer's violation of a statute.

As to contributory negligence, the English and most of the

American courts continued to hold that if an employee was in any degree guilty of negligence himself, such fault precluded him from any recovery at all. In three American states, at common law, the defense of contributory negligence was modified. This was accomplished by the adoption of the rule obtaining in admiralty law, by which negligence on the part of the plaintiff did not preclude recovery, but went in mitigation of his damages.

The adoption of the vice-principal exception to the fellow-servant defense in a number of American state courts, the holding in England and many state courts of the United States that assumption of risk did not include assuming the danger of the violation of a statute by the employer, and the substitution in three states of the United States of the doctrine of comparative negligence for the contributory negligence rule, summed up the extent to which the employers' defenses were changed by judicial decision at common law. The harshness of the co-servant rule was mitigated to some degree in those jurisdictions which adopted the vice-principal exception; but this exception was never recognized in England; and the effect of the other two defenses in both England and America was not greatly changed by judicial interpretation. Legislation remained the only way in which a remedy might be secured.

### Efforts to ameliorate the common law

After the English courts in 1868 refused to accept the vice-principal rule in the famous decision of *Wilson v. Merry*, dissatisfaction with the fellow-servant defense grew apace and soon spread beyond the class which it particularly affected. In 1877, the House of Commons appointed a committee to investigate the subject and it reported in favor of modifying the law. Three years later, in 1880, the English Employers' Liability Act was passed. It applied, in general, to all manual laborers, except domestic servants. It provided, among other things, that where a workman suffered a personal injury because of defects in the machinery or plant, or from the negligence of anyone in the service of the employer who was entrusted with any superintendence, or from the negligence of an employee who controlled any signal, locomotive engine, or train on a railway, such workman (or his dependents in case of his death), should have the same remedies against the employer as if he had not been a workman—in other words, the remedies a stranger had against the employer. However, a worker could not recover for injuries caused by defects in plant or machine unless such defects arose from, or were not remedied through, the negligence of the employer or superintending servant. The workman,

by the terms of the act, was required to give notice of his injury to his employer within six weeks after its occurrence, and to bring action within six months thereafter. The amount of recovery was not to exceed a sum equivalent to the estimated earnings, for the three years preceding injury, of a person in the same grade of a similar employment in the same district. Personal injury suits were triable in the county courts.

The statute effected a modification, rather than the abrogation, of the fellow-servant rule, and did not touch upon the other two defenses. It provided that the clause "person who has superintendence" meant one whose sole duty was superintendence and who was not engaged in manual labor. If, then, a workman was injured by the negligence of a fellow employee of the same rank, he could not recover against the employer. The injured employee still must prove negligence on the part of the employer or superintendent, and he was still held to assume the risks of employment, except the negligent acts of a directing employee. The act did reach those masters who did not personally direct the work in their establishments but delegated such duties to others.

Just one year and a half after the Employers' Liability Act took effect in England, the courts held that it was competent for a workman to contract with his employer not to claim compensation for personal injuries under the act, such contract not being against public policy. Thus, what little protection the law had afforded the injured laborer was soon undermined by judicial decision.

In the United States, prior to 1880, five states—Georgia, Iowa, Kansas, Wisconsin, and Wyoming—had enacted statutes which made railway companies liable to employees, as to strangers, for injuries caused by the negligent acts of the railways' servants. Georgia, in 1855, was the first state to pass such a law. In 1873 the Territory of Montana placed on its statute books an act declaring a railroad corporation liable for injuries to all servants who were acting under the orders of superiors, thus confining the law's application to railroads alone. But in 1896 Montana's constitution was held to annul the act. Shortly after the passage of the English Employers' Liability Act in 1880, Alabama and Massachusetts enacted laws modeled thereon. Massachusetts expressly excluded domestic servants and farm laborers from its law's operation. The application of the Alabama law was general and there was an added proviso that it should not be regarded as contributory negligence or assumption of risk for a servant to remain in employment after knowledge of a defect in plant or machinery, unless he were an employee whose duty it was to remedy such defect. In 1893 Indiana

passed an employers' liability law which was somewhat similar to that of England. It applied to all corporations except municipal corporation, but not to firms or individuals; but later the act was held unconstitutional, except as to railroads. In 1891 Colorado enacted a statute which was noteworthy as being the first one which entirely abrogated the fellow-servant doctrine in respect to all employments. In some other particulars, the Colorado law was also based on the English statute, and so was that of New York in 1902. The New York law applied to all employments.

In the period between 1885 and 1910, most of the states of the United States enacted some form of employers' liability law. A few of these were merely codifications of the rules as to a master's duties to his servants which were already embodied in the law of these states through judicial decision. The majority of the statutes, however, effected a modification or abrogation of the fellow-servant doctrine, but their application was to railway companies only. Maryland's law, on the other hand, included only mining companies, while the laws of Oklahoma and Montana covered both mines and railroads, and that of Nevada applied to railroads, mines, and mills.

Some of the state statutes modified the defense of contributory negligence on the part of the employee by providing that it should not bar recovery where the negligence of the employer in violating a safety statute was the grounds of action. Ohio and the District of Columbia adopted the rule of comparative or proportional negligence as to all employments. The effect of this was to set off the negligence of one party against that of the other and to allow the injured employee's negligence, if less than that of the employer, to lessen the amount of damages, rather than to bar recovery altogether. Nevada applied this doctrine to actions of employees injured in mines, smelters, and ore mills; Maryland to coal mines and clay works; Oregon to building operations; and nine states and the Federal Government to railroads. Indiana made contributory negligence on the part of the plaintiff an affirmative defense, to be pleaded and proved by the employer.

Many states by judicial decision adopted the rule that employees did not assume the risk of their employers' violation of a safety or penal statute passed for the employees' protection. Ohio, Iowa, and the United States enacted this holding into law. The Iowa and Ohio statutes applied to all employments. New York provided that the employee assumed only the ordinary risks of his work, that is, those inherent in the business, and no others. And Alabama provided that if an employee remained in employment after he had knowledge of a defect in the plant or machinery, etc., assumption

of risks was not a defense. Oregon, South Carolina, and Virginia applied the Alabama doctrine to railroad employees.

Almost all the states with employers' liability acts, except those whose laws were based on the English statute, provided that agreements between employees and employers to exempt the latter from liability were illegal or void. The federal act also contained this provision. Thus these jurisdictions made certain that their courts did not follow the English decision permitting contracts of exemption from liability.

The first Federal Employers' Liability Act was adopted in 1906 and applied to all employees of common carriers engaged in interstate or foreign commerce or in trade or commerce in the District of Columbia or in any territory. This act was held invalid because applicable to employees not engaged in interstate commerce. The act was subsequently held valid as applicable to the District of Columbia and to the territories, and the Federal Employers' Liability Act of 1908 was enacted with respect to such employees of common carriers as are engaged in interstate or foreign commerce. The federal acts included substantially all the modifications of common law defenses contained in previous state statutes, and amount in effect to a codification of statutory gains up to the time of their passage. They were regarded as important forward steps at the time of their passage. If the employee was contributorily negligent, his damages were diminished in proportion thereto, but recovery was not barred; nor was contributory negligence allowed as a defense where the employer violated a safety statute. The employee did not assume the risk of his employer's violation of such a law. Railroads were liable to injured employees for the negligence of their officers, agents, or other employees, or because of defects due to negligence in cars, engines, machinery, tracks, etc. And contracts of exemption from the law's operation were prohibited.

### Search for a new remedy

The state and federal employers' liability acts, with all their changes in favor of the employee, succeeded only in lessening the severity of the defenses interposable in industrial injury suits. It was still as necessary for the employee to prove fault on the part of the employer in order to recover as it was under the unmodified common law. The method of procedure which the employee must adopt to gain his rights, namely, court action, remained the same. It was apparent in England, soon after 1880, that the liability law had increased litigation, and at the same time failed to reach many industrial accidents. A bill was introduced in the House of Com-



mons in 1893 which entirely abolished the fellow-servant rule, removed the limit of damages recoverable, and prohibited contracting out of liability. But it left the defenses of contributory negligence and assumption of risk untouched. This bill was criticized on the ground that it did not go far enough, and it failed of passage. Sentiment was expressed in the House of Commons even at that time in favor of a law fixing liability on the employer for industrial accidents without his fault, and pressure for such legislation continued to grow. Stress was laid on the successful operation of the German workmen's compensation insurance laws, which at that time had been in effect for about twelve years. In 1897, representatives of the government in the House of Commons stated in regard to the liability act of 1830:

The present law is notoriously inadequate; it fails to compensate for accidents if caused by fellow-servants, if contributed to by the injured, and if resulting from the risks of co-occupation; it causes costly litigation, 35 per cent of the amount recovered being legal expense; it leaves the employer ignorant of what his liability is.

A workmen's compensation bill was introduced which, its sponsors claimed, was based on two principles; first, that a workman was entitled to a moderate and reasonable amount of compensation for all industrial accidents, and second, that such compensations should be a part of the expense of production, chargeable upon industry. It was hoped by the advocates of the compensation bill that it would be a powerful incentive toward accident prevention, as it added to financial burden of employers by covering a greater number of accidents, and "increased responsibility meant increased care." The bill was passed by Parliament and was known as the Workmen's Compensation Act of 1897.

Although dissatisfaction with the conditions under employers' liability laws existed in America at the time of the passage of the English compensation act, it was not productive of legislation until more than a decade later, except in two jurisdictions. The state of Maryland in 1902 enacted a law providing for stated benefits to be paid to injured employees without suit and without proof of negligence. This statute applied only to the employments of mining, quarrying, steam and street railways, and to work for municipalities in excavation or construction of sewers or other physical structures. The employers affected might escape liability by payments to the state Insurance Commissioner, who administered the law, of a certain sum per employee, half of such amount to come from the employer, half to be deduced from the wages of the employee. The Maryland law was in effect for only two

years, when it was held unconstitutional by a Baltimore court, and no appeal was taken. Only a few payments were made to workers under this statute.

In 1909, the Montana legislature provided for the establishment of a cooperative insurance fund, administered by state officials, for the benefit of workmen injured or killed in or around coal mines and coal washers. Both employers and employees were required to contribute to the fund—employers to pay one cent a ton on coal mined and shipped and employees one percent of their gross monthly earnings. Injured employees protected by the fund might sue under the employers' liability laws, but if they did they forfeited their insurance benefits. This law was also declared unconstitutional.

The Maryland and Montana laws were the only attempts toward compensation legislation in the United States before the work of various governmental commissions investigating the subject showed its influence. Massachusetts appointed such a commission in 1903, and Illinois in 1905, but no legislation grew out of their findings. Most of the states moved very cautiously toward a change in their industrial accident laws. However, by 1916, 31 states and the Federal Government had appointed commissions to investigate and report on the conditions under employers' liability, and to recommend changes in the law, if such were found to be needed. Most of the commissions in the important industrial states made public their findings of fact and recommendations for changes in the period from 1910 through 1913. Following these reports, legislation was eventually enacted in every jurisdiction which had appointed a commission, with the exception of Arkansas, and in many states where no investigating body had been in existence.

The fact-finding procedure adopted by most of the state commissions was substantially uniform. Studies were made of a series of industrial accident cases arising in the most populous and therefore most highly industrialized centers of a particular state; the legal history of these cases was traced and, where possible, the economic background of the injured persons or their families was secured. For example, the New York commission selected cases arising in New York City and Erie County for study; Illinois chose part of its cases from Cook County, Ohio from Cuyahoga County, Michigan from Wayne County, Wisconsin from Milwaukee County, etc. A privately financed study of conditions in Pennsylvania was based on cases in Allegheny County, comprising Pittsburgh, the center of the steel industry. The various state commissions held public hearings and secured the opinions of leading employers and of labor organizations on proposed changes and also attempted to get the

opinions of leading members of the bench and bar. Information and statistics were secured from employers' liability insurance companies as to the number of industrial accidents, the amounts paid in for premiums for such insurance, the amounts paid out to injured workmen, etc.

### New York commission findings

The New York commission found four main objections to the system of employers' liability. The same defects were also pointed out by many other state commissions, and include within their scope lesser difficulties which were occasionally touched upon. The findings of a number of the commissions on the four topics dealt with in the New York report are briefly summarized below.

*Insufficient Compensation.* The first objection to the system found by the New York investigators was that only a small proportion of workmen injured in industry received substantial compensation; and that therefore injured workmen or their dependents were frequently forced to a lower standard of living, or became burdens on the state through charity.

*Wastefulness of the system.* The second objection raised by the New York commission was that the employers' liability system was wasteful, being costly to the employers and the state and of small benefit to the victims of industrial accidents. The figures showed that the benefits received by the industrially injured were inadequate. A few state commissions obtained statistics from companies writing liability insurance as to the cost of the system to the employer. Ten such companies doing business in New York received \$23,523,585 in premiums for the years 1906, 1907, and 1908.

The total amount expended in actual payment of claims to injured workers was \$8,559,795, or 36.34 percent of the premium payments. From these figures and other information obtained from the companies, the commission concluded:

... for every \$100 paid out by employers for protection against liability to their injured workers, less than \$37 is paid to those workmen; \$63 goes to pay the salaries of attorneys, claim agents whose business it is to defeat the claims of the injured, to the cost of soliciting business, to the costs of administration and to profit.

*Delay.* The third objection raised by the New York commission related to the delay in the operation of the employers' liability

system, and the disastrous consequences which such delay might bring about. The commission found that cases in New York took six months to six years to go through the courts. The findings of the commission on this subject were summed up as follows:

For a workingman's family deprived of its usual income by the death or disability of its chief wage earner, it is almost as disastrous to wait several years for a recovery as to get no recovery. They usually stand in immediate need of funds and the deprivation of those years during which their suit is being fought out may well mean lasting harm which no ultimate recovery can make up to them.

The injured workman is driven to accept whatever his employer or an insurance company chooses to give him or take his chance in a lawsuit. Half of the time his lawsuit is doomed to failure because he has been hurt by some trade risk or lacks the proof for his case. At best he has a right to retain a lawyer, spend two months on the pleadings, watch his case from six months to two years on a calendar and then undergo the lottery of a jury trial, with a technical system of law and rules of evidence, and beyond that appeals and perhaps reversals on questions that do not go to the merits. Who shall say that is justice, or wisdom or good government? If he wins, he wins months after his most urgent need is over. It needs no investigation to show that a system which pays only at the end of months and years of poverty and then pays in a lump sum, is not justice to the workman.

*Antagonism between Employer and Employee.* The New York commission found, as a fourth objection, that employers' liability system bred antagonism between the employer and the employee, and that from many points of view this was the most deplorable condition of all. The testimony of many employers and employees, and of the representatives of their various organizations, was taken by the commission, which found that the employers who did not insure and who made provision for the care of their injured men in complete disregard of the legal rights involved were the only ones whose relations with their men were without friction. The New York report, and others as well, ascribed much of this antagonism to the practice of the employers' liability insurance companies, to whose claim agents insured employers referred their workers for financial aid at the time of injury. The Iowa study pointed out that the liability insurance policy forbade the employer to grant anything beyond first aid to an injured man without securing a waiver of further claims. Both the adjustment of claims against insured employers and the defense of liability suits rested with the insurance company, for after reporting the injury to the

company, the employer stepped out of the picture. The Pittsburgh survey summed up this situation as follows:

Manifestly the injured workman loses, rather than gains, when his employer takes out a liability insurance policy. He loses, to begin with, his chance of appealing for compensation on other than legal grounds. For by the terms of its policy the insurance company contracts only to assume the employer's legal liability, not to underwrite his moral responsibilities, or carry out the promptings of his sympathy. In the second place, if the workman has a claim and commences a suit, he must fight the insurance company, a powerful organization, equipped with system, money, skill and experience—in all likelihood, a bigger legal person, a more formidable antagonist, than his employer.

As a result of the conditions described in the preceding pages, which were found by the investigating bodies to exist under employers' liability, the various commissions recommended new legislation in regard to industrial accidents. Although the recommendations of the different bodies varied widely as to the law's application, its administrative features, forms of insurance to be adopted, and in many other particulars, one cardinal principle was included in all the reports, namely, that liability for industrial accidents should be fixed on the employer without fault. It was hoped by the different commissions that legislation of this type would remedy the defects of the then-existing system, by bringing under the law most of the industrial injuries not theretofore included; and that the waste and delay involved in litigation would be largely eliminated through reduction in litigation itself.

The New York commission stated:

The main saving of litigation which it is hoped the bill will accomplish, however, lies in the fact that by broadening the basis of liability and taking away the so-called defenses, there will be no questions left to litigate save first, is the injured workman within the act, second, what shall be the compensation for his injury within the limits of the act. On those questions there is little room for forensic oratory or the prejudice of juries—and that fact will, we believe, prove a strong incentive to both sides to settle promptly and fairly and take the cases out of the courts.

Perhaps the chief object which the commissions hoped would be accomplished by compensation legislation, however, was the prevention of industrial accidents. The Massachusetts commission stated that this aspect of the law was regarded as the most important; and many of the state reports indicated similar sentiments. A few admitted that statistics bearing on accident prevention were not obtainable from the European countries where compensation laws had been in effect for some time; but the investigating bodies,

practically unanimously, seemed certain that one of the chief effects of such statutes would be prevention of accidents. It was also hoped that much of the antagonism between employer and employee would be removed. However, since most compensation statutes required insurance against industrial accidents, the insurance company still remained in the picture, and that had been a major irritant under the system of employers' liability.

### **The enactment of compensation laws**

The work of the various state commissions investigating employers' liability did much to focus public attention upon the problem of industrial accidents. The commissions were practically unanimous both in condemning the existing system and in advocating workmen's compensation legislation as a solution of the difficulties; and this attitude was a potent factor in rousing and increasing popular sentiment in favor of the compensation principle. The year 1910 saw important developments. Compensation commissions from nine states and the United States Government met in Chicago for a conference, and there exchanged views and discussed various phases of the proposed statutes. The New York Employers' Liability Commission reported its findings to the Legislature of that state, as a result of which two types of compensation laws were enacted, one voluntary in form and one compulsory. Under the first-mentioned statute, employers might choose to come under its provisions if they wished; but as none took advantage of it, it soon became a dead letter.

### **Geographical extension of workmen's compensation**

The two statutes of New York were the only ones enacted in the United States in 1910. But the following year saw 10 more state legislatures adopt workmen's compensation acts: Washington and California on the Pacific Coast; Nevada in the Rocky Mountain section; Ohio, Illinois, Wisconsin, and Kansas in the Middle West; and Massachusetts, New Jersey, and New Hampshire in the East. In 1912, Arizona, Maryland, Michigan, and Rhode Island were added to the list of compensation states; and in 1913, Connecticut, Iowa, Minnesota, Nebraska, Oregon, Texas, and West Virginia, making a total of 22 states at the beginning of 1914 with compensation legislation. In that year, Louisiana was the only jurisdiction to pass a compensation act, but in 1915, 8 states, varying in location from Maine to Wyoming, and 2 territories—Alaska and Hawaii—adopted the principle. By 1921, 42 states and 3 territories had

enacted workmen's compensation laws, and the Federal Government also, for its civil employees.

The states as a whole moved with considerable caution in changing the system of employers' liability; approximately fifteen years elapsed between the adoption of compensation in England and its recognition in any appreciable number of American states. However, when once the start was made by the passage of such a law in New York, other states followed in rapid succession. \* \* \*

It might have been expected that the spread of such legislation would have been related to its need—that is to say, that those jurisdictions with the largest manufacturing interests would have been in the vanguard in applying the compensation principle. It was logical that the earliest action was taken in New York. After that, however, the spread of workmen's compensation had no apparent relation to the stage of industrial development present in the respective adopting jurisdictions. Some of the states which passed laws in 1911 were widely divergent, both geographically and industrially. Nevada, with its mines, Washington, with its fisheries and lumbering industries, Kansas, an agricultural state, and Massachusetts, a manufacturing jurisdiction, all enacted compensation legislation in that year. The extension of the principle in succeeding periods was rapid and steady, but as sporadic geographically as it was in 1911.

## STATE WORKMEN'S COMPENSATION LAWS

*State Workmen's Compensation  
Laws as of June 1, 1946. Division  
of Labor Standards, U. S.  
Department of Labor, Bulletin  
No. 78, 1946.*

WORKMEN'S COMPENSATION was the first type of social insurance to be developed extensively in the United States by legislation. These laws are designed to assure prompt payment of benefits to injured employees or to the dependents of those killed in industry, regardless of who was at fault in the accident. Before these laws were passed, if an injured worker sued his employer for damages he had to prove that the employer was negligent. Under the compensation law the question of fault or blame for the acci-

dent is not raised, since the cost of work injuries is considered part of the expense of production.

Beginning about 1910, workmen's compensation legislation has been enacted by all of the States with the exception of Mississippi,\* as well as Alaska, Hawaii, and Puerto Rico. Federal laws cover Government employees, longshoremen and harbor workers, and private employees in the District of Columbia. However, because of coverage limitations and the adoption by more than half of the States of an "elective" rather than a compulsory system of workmen's compensation, it has been estimated that less than fifty percent of the workers are protected under these laws. Nearly one-third of the States fail to provide coverage for occupational diseases, and agricultural and domestic workers are usually excluded from coverage.

In States which have an elective law, employers may refuse to operate under the compensation act if they prefer to risk an injured worker's suit for damages. Although most employers elect to come under the act, some do not. As a result, thousands of employees are unable to obtain compensation unless they sue for damages. Workers are also deprived of protection in a number of States because of numerical limitations on required coverage and in others due to the fact that the law applies only to certain "hazardous" industries.

The following comparative analysis covers the major features of the laws with general comments. It is based on a study of the laws, some correspondence with administrative agencies, and in a few instances on administrative rulings which have clarified or modified the legislation.

### Types of laws

*Compulsory and elective laws.* Compensation laws may be classified as compulsory or elective. A compulsory statute is one which requires every employer within the scope of the compensation law to accept the act and pay the compensation specified. An elective act is one in which the employer has the option of either accepting or rejecting the act, but in case he rejects it he loses the customary common law defenses—assumed risk of the employment, negligence of fellow servants, and contributory negligence.

No compensation law covers all employments. Usually agriculture, domestic service, casual employment, and in some laws

\* Mississippi enacted a workmen's compensation law in 1948, effective on January 1, 1949.



nonhazardous employments, are exempted from the provisions of the act. In most States, however, such employments may come under the provisions of the law through the voluntary acceptance of the employer. Such coverage is called voluntary because as a rule the employer loses no rights or defenses if he does not accept. Thus, in operation a compensation law may be either compulsory or elective as to certain employments and voluntary as to others.

Under some types of elective laws acceptance of the act by employers or employees is presumed unless specific notice of rejection is filed. Twenty laws make this presumption, but in the other elective laws the employer must accept the law in writing, take out insurance, or show notice of acceptance. The elective laws, also the Arizona compulsory law, permit the employee to reject the coverage, but in practice this is rarely done except where employers have urged it or made the employee's rejection a condition of employment.

In some cases the laws are in part compulsory and in part elective. It will be noted that many of the laws which are elective as to private employments are compulsory as to public employments.

*State and private insurance.* To make certain that benefit payments will be made when due, the States require that the covered employer shall obtain insurance or give proof of his qualifications to carry his own risk, which is known as self-insurance. In most of the States the employer is permitted to insure with private insurance companies. State insurance systems exist in 18 States and Puerto Rico. In 7 of these States and in Puerto Rico the system is called "exclusive" because employers are required to insure their risks in the State fund. Competitive State funds exist in 11 States, where employers may choose whether they will insure their risks in the State fund, or with private insurance companies, or qualify as "self-insurers" with the privilege of carrying their own risks.

### Persons and employments covered

Because of wide variations in the coverage patterns of the laws, it has never been possible to measure the extent of coverage, but probably not more than fifty percent of gainfully employed workers are actually protected by workmen's compensation. It has been noted that no law covers all employments. Under some laws the coverage is of so-called "hazardous" employments; often employers having fewer than a specified number of employees are exempted; and many of the laws are "elective," permitting employers to choose to stay outside the coverage. Other curtailments of coverage are caused by the specific exclusion of a designated industry or em-

ployment, and by the conflict of State and Federal authority, especially in relation to interstate transportation and to maritime operations.

The largest population group deprived of workmen's compensation protection by the "specific exclusion" clause is that of farm employment. Other specific exclusions usually found in the laws are applicable to domestic servants, casual workers, and employees of charitable institutions.

Two of the major groups outside the coverage of the compensation laws are interstate transportation workers and maritime employees. Railroad employees engaged in interstate commerce are covered by the Federal Employers' Liability Act. Maritime workers are subject to the Jones Act, under which the provisions of the Federal liability act are applicable to seamen.

### **Numerical exemptions**

In 28 States, Alaska, and Puerto Rico employers of less than a stipulated number of employees are exempt from compensation coverage requirements. However, most of the acts permit voluntary acceptance in such cases. In some of the laws the numerical exemption does not apply to certain employments, such as in mines, building construction, sawmills, logging operations, and other so-called hazardous employments. In other States the numerical exemptions apply only to nonhazardous employments.

### **Listed or specified hazardous employments**

In 12 States (Illinois, Kansas, Kentucky, Louisiana, Maryland, Montana, New Mexico, New York, Oklahoma, Oregon, Washington, and Wyoming) the compensation laws apply mainly to listed "hazardous" or "extrahazardous" employments. The use of these terms was an expedient adopted in the early days of workmen's compensation legislation to meet the risk that the law might be held unconstitutional by the courts. However, it has long been known that this device is not needed to assure constitutionality, and its retention in some States is a major obstacle to the wide coverage of workers.

In a few of the States with this type of coverage the list of hazardous industries is comprehensive. In New York the list is so complete that most employments are covered. However, even in the States where the list is fairly complete, difficulties of interpretation arise because the laws in some cases contain both specific and general provisions. For example, Maryland lists "extrahaz-

ardous" employments that are covered and then in addition provides that the act shall apply to all extrahazardous employments not specifically enumerated and to all work of an extrahazardous nature. Consequently, determination of the "hazardous" nature of an employment may have to be made after instead of before an injury.

### Public employments

A 1944 study of workmen's compensation for public employees estimated that there were six or seven million persons in public employment, Federal, State, and local. Civil employees of the Federal Government are covered by an act administered by the United States Employees' Compensation Commission. Such coverage is inclusive and compulsory.

No complete analysis of the exact coverage of public employees, State and local, has been made. Forty-six States, as well as Alaska, Hawaii and Puerto Rico, cover public employees in whole or in part, but some local units have retained their own security arrangements. Often the governmental units "self-insure," i.e. carry their own risks. As previously pointed out, some laws which are elective as to private employments are compulsory as to public employments. In 37 States the laws are compulsory as to all or some of the employees of the State or its local subdivisions. In 9 States the laws are elective or in some instances in part voluntary or permissive. Missouri is the only State which by positive enactment excludes public employees.

In 11 States the laws appear to cover all public employees, but in Arkansas, as previously noted, coverage is voluntary. Twenty-one laws apply to all public employees except elected officials and administrative officers. On the other hand, there are seven States in which the laws cover only employees engaged in hazardous employments, and the Massachusetts law applies only to laborers, workmen, and mechanics. The laws of Alabama, Kansas, and Texas do not cover State employees. In New Hampshire, State employees are virtually excluded, but the Governor and Council may award compensation to such employees, after hearing, and upon terms equivalent to the law which applies to private employment.

### Employment specifically excluded

*Agriculture and Domestic Service.* Agricultural employments are usually excluded from coverage. The exemption of the small employer, of course, automatically leaves most of the farmers out-

side of the law. Such exclusions have been due mainly to the opposition of farmers to compensation coverage. Steps toward inclusion are the coverage, in some States, of mechanized or power operations, especially when the operation is for gain and not in the course of a farmer's own production routine. The California law is applicable to a farmer whose pay roll has been more than \$500 in the preceding years unless the farmer elects not to be covered.

In most of the States farmers may voluntarily come under the compensation law by insuring and posting notice of acceptance, but in Alabama and Oklahoma the exclusion is such that only liability, not workmen's compensation insurance, can be obtained. The laws of Ohio and Puerto Rico provide compulsory coverage for agriculture for employers of three or more; the Hawaii law is compulsory for all agricultural employees. Coverage is elective in Connecticut (for employers of five or more), New Jersey and Vermont (for employers of seven or more). In New Jersey, however, farmers are not required to insure.

In general the legal obstacles to the coverage of agriculture apply also to domestic service. Examples of steps toward workmen's compensation for domestic servants are the California provision covering employees working over 52 hours a week and the New York provision covering domestic servants employed a minimum of 48 hours per week in cities of 40,000 or more. The laws of Connecticut and New Jersey cover domestic service, but in Connecticut it is applicable only to employers of five or more, and in New Jersey the employer is not required to insure.

*Other exclusions.* Casual employments are excluded from coverage under all the workmen's compensation laws except in Alaska, Kansas, Kentucky, Louisiana, Maine, New Hampshire, New York, Oklahoma, Oregon, Washington, and West Virginia, and in the Longshoremen's Act. The term "casual" employment is not readily defined. In most States, however, it refers to employment which is not in the usual course of the employer's trade, business, or occupation; not regular or periodical.

Some laws specifically exclude certain industries; in others, industries are excluded by omission from listed employments requiring coverage. There are also miscellaneous exclusions, such as higher paid workers, employees of charitable institutions, and clerical workers.

### **Injuries and diseases covered**

Compensation laws are limited not only as to persons and employments included, but also as to injuries covered. In most States

injuries due to the employee's intoxication, willful misconduct, or gross negligence are excluded. The limitation of the coverage of injuries may be by definitions or lists, or both. The usual definition of a compensable injury is one "arising out of and in the course of employment." Under most of the early laws, only "accidental" injuries were covered. Some laws omitted the word "accidental" but specifically excluded occupational diseases. Under several laws, however, the terms "injury" or "personal injury" have come to include, by definition or court interpretation, occupational diseases. An increasing number of the States have changed the specific exclusion of occupational diseases to specific or general inclusion. An occupational disease is usually held to be an injury of gradual or slow development, by comparison with the sudden effect of an accident. However, in States not covering occupational diseases, the courts sometimes attribute a sudden or "accidental" origin to an injury known to physicians as a disease. States are ending this confusion by adopting occupational disease coverage amendments or laws.

### Occupational diseases

It is now generally recognized that occupational diseases should be compensated, and this is done in 33 States, as well as in the District of Columbia, Hawaii, and Puerto Rico. Such protection is also given to employees covered by the Federal Employees' Compensation Act and the Longshoremen's and Harbor Workers' Act. Some of the laws list the diseases that are included, while others cover all occupational diseases. An outstanding development in this field in recent years has been the increasing use of general coverage.

Sixteen States, and also the District of Columbia, Hawaii, and the United States (Civil Employees' and Longshoremen's Act) cover all occupational diseases, while 17 other States and Puerto Rico cover only listed diseases. The Virginia law permits the employer to reject the schedule and elect full coverage. A separate act in Montana provides for the payment of \$30 a month out of public funds to persons totally disabled from silicosis; if they have been residents of the State for 10 years.

The provisions regarding payments for disability or death, medical care, or coverage in the case of occupational diseases are usually the same as for accidental injuries except with respect to silicosis, asbestosis, or other dust diseases.

### Amount and period of benefits

The amount of money that injured workers receive under the different compensation acts is determined by the rate, usually a percentage of the wage; the term or period of payment; the weekly maximum; and the aggregate maximum. The amount and method of payment also differ according to the type of injury. The acts prescribe certain payments in case of death and in case of permanent total disability, and also have specific provisions covering permanent partial disability and temporary total disability.

### Percentage of wages

Most of the acts base the compensation on varying proportions of wages. Alaska, Oregon, Washington, and Wyoming do not base the amount of compensation on the wage received by the injured worker, although in Alaska and Oregon this method is used for temporary disability. A few acts provide fixed lump sums or pensions for certain injuries but apply the percentage system to all others. Workers do not necessarily receive the amount which would be indicated by these percentages, as in most States there is a limitation on the maximum amount of weekly benefits. In some States the percentage varies with the worker's conjugal status and the number of his children.

### Maximum limitations

Maximum periods during which compensation may be paid vary widely in the different acts. Maximum weekly payments are as high as \$30 in California and Connecticut, but in the greater number of States the maximum is between \$18 and \$25. Especially when earnings are relatively high, the maximum weekly payments may be only a fraction of wages, making it difficult for the worker to meet living costs.

In Arizona there is no limit on the maximum weekly payment.

### Death benefits

Methods for determining compensation for death vary considerably and do not in all cases depend upon the fact that the deceased was a source of support to legal beneficiaries. In Arizona, Nevada, New York, North Dakota, Oregon, Washington, West Virginia, and the United States (civil employees' act) the law provides for the payment of benefits to a widow for life, or until remarriage, and in the

case of children until a specified age is reached. The other States limit the period or total amount of payments. In 31 States the death benefits are limited to payments for a specified period ranging from 260 to 600 weeks, but in some cases payments continue to children until they reach a specified age. Some of these States also set a total maximum ranging from \$3,500 to \$9,000. Seven States, Alaska, the District of Columbia, Hawaii, Puerto Rico, and the United States (Longshoremen's Act), limit the maximum amount but not the number of weeks during which compensation is payable. Oklahoma pays no death benefits.

Most of the compensation laws base the death benefits on the average weekly wages of the deceased workman, but in Oregon, Washington, West Virginia, and Wyoming a flat pension is paid. In some States the compensation varies with conjugal status and number of children.

### **Permanent total disability**

In 16 States and also under the United States act for compensating injuries to civil employees, life benefits are paid for permanent total disability. In the other States the payments are limited as to time, amount, or both. The time periods range from 260 to 1,000 weeks, and the money limitations from \$5,000 to \$12,000.

The United States act for civil employees, and also the laws of Arizona, Hawaii, and Nevada, provide additional payments for an attendant if one is required.

In some States the payments are different for single and married persons, with additional amounts for dependent children. For example, in Idaho the maximum weekly payment for a single employee is \$14, while a married employee may receive \$16 with \$1 per week additional for each dependent child subject to a total maximum of \$20 per week.

### **Permanent partial disability**

Permanent partial disabilities are classified as specific or schedule injuries such as the loss or loss of use of a member, and "non-schedule" injuries or those of a more general nature, as for example, disability caused by injury to the head or back. The measure of such compensation is usually a stated number of weeks, but under the laws of Alaska, Washington, and Wyoming the payments are fixed sums, and in California are based upon degrees of total disability.

In 28 States, Alaska, the District of Columbia, Hawaii, and

Puerto Rico, and under the Longshoremen's Act, the compensation for permanent partial disability is in addition to the period of total disability or the healing period. In the other 18 States the schedule payments are exclusive; in other words, the temporary total benefit payments are subtracted from the amount due for permanent partial disability. In either event there may be money or period limitations. In some cases additional amounts are allowed for disfigurement. In the District of Columbia, Minnesota, New York, Ohio, West Virginia, Wisconsin, and under the Longshoremen's Act, there are additional payments for vocational rehabilitation, usually for maintenance during training.

### **Period of compensation payments for specified injuries**

The laws of 45 States and also those of the District of Columbia, Hawaii, Puerto Rico, and the United States (Longshoremen's Act) have established schedules stating the number of weeks during which compensation shall be paid for specified injuries. The principles underlying this arrangement are that it is to the advantage of the worker to know definitely what aid to depend upon after an injury, and also it was supposed that the worker could adjust himself to his handicap and recover his place in industry within a given period of time. Moreover, where required, there are Federal-State provisions for "rehabilitation" in the form of retraining, education, or placement and job guidance, to help the injured person find suitable work before the period of compensation runs out.

There is wide variation, from State to State, in payments for the various specific injuries. For example, for the loss of an arm at the shoulder, which is usually considered the most serious handicap, several States provide payments during less than 200 weeks, while in Wisconsin the payments are for 500 weeks in addition to the payments during temporary disability.

### **Medical benefits**

In all the compensation acts medical aid is required to be furnished to injured employees. In the early legislation the provision for medical aid was narrowly restricted as to the monetary cost, the period of treatment, or both. In the later development of the acts such absolute restrictions have been changed in many cases either by providing for unlimited benefits or by authorizing benefits in addition to the initial maximum upon the approval of the administrative authority. Forty-two acts require the employer to furnish artificial limbs and other appliances.



### **Waiting period**

All the States except Oregon provide that during a specified period of time immediately following the injury, compensation shall not be paid. This "waiting time" ranges from a minimum of 1 day to a maximum of 10 days, with the majority of the States requiring a 7-day waiting period. The justification for the waiting period is the cost and administrative burden of bookkeeping in setting up claim files and accounts where only a few dollars are disbursed.

The waiting period relates only to compensation. Medical and hospital care is provided immediately, regardless of the fact that compensation is not paid for a specified period.

Most of the laws provide that if the disability continues for a certain number of weeks, the payment of compensation is retroactive to the date of injury.

### **Waiver of compensation**

In a few States an employee handicapped by an existing disability—as for example, blindness, epilepsy, or the loss of a member—may by special contract waive his right to compensation in the event of a subsequent injury, subject to approval by the compensation agency. Where such a practice exists to any considerable extent, the scope of the compensation law is narrowed and workmen may suffer losses they can ill afford to bear. To avoid the necessity for a partial surrender of the compensation principle as an alternative to the unemployment of handicapped workers, most States have now established "second-injury" funds which take care of an employer's excess loss arising from disabling injuries sustained by a handicapped employee.

In practice, waivers are restricted or prohibited in most jurisdictions. Waivers are permitted, however, in certain cases in Alaska, Connecticut, Indiana, Maine, Maryland, Massachusetts, New Hampshire, and Ohio. In Illinois the compensation law does not apply to totally blind employees, and in Wisconsin epileptics and totally blind employees may elect not to be subject to the workmen's compensation law with respect to injuries resulting from such handicaps.

### **Claim administration**

In establishing the workmen's compensation system, the principal objective was to provide a simple, convenient, and inexpen-

sive method of settling the claims of injured workers. The usual methods of adjudicating workmen's compensation claims are: By direct payment, as in Wisconsin; by the agreement system, as in Pennsylvania; and by the hearing system, as in New York. In most of the States a special agency has been set up to administer the act. However, in six laws—those of Alabama, Louisiana, New Hampshire, New Mexico, Tennessee, and Wyoming—court procedure remains, as a survival of earlier practice.

It has been generally recognized that courts are not properly equipped to render the type of service needed for workmen's compensation administration because of many correlated responsibilities involved. The National Conferences on Labor Legislation have repeatedly recommended administration by a commission or board rather than by the courts.

In States where the law is administered by a commission or board, the State agency usually has exclusive jurisdiction over the determination of facts, with appeals to the court limited to questions of law. However, in some States the court is permitted to consider the issues anew.

## THE 1946 AMENDMENTS TO THE RAILROAD ACTS

J. M. Elkin, "The 1946 Amendments to the Railroad Retirement and Railroad Unemployment Insurance Acts," *Social Security Bulletin*, December, 1946.

THE AMENDMENTS to the Railroad Retirement and Railroad Unemployment Insurance Acts, approved on July 31, not only give railroad workers the most comprehensive system of social insurance in the United States, in terms of risks covered, but provide the first major, if partial, extension of the coverage of old-age and survivors insurance since the Social Security Act Amendments of 1939.\* For the first time in this country, a major group of industrial workers and their families are covered under a unified Federal program providing protection against the five major hazards of economic insecurity—old age, disability, death, unemployment, and sickness.

\* Congress amended both laws in 1948 to increase all benefits under the Retirement Act by 20 percent and to establish a system of "experience rating" under the unemployment insurance law for reducing employers' contributions.

### Summary of changes

The principal changes made in the old laws, and the dates on which the changes become effective, are as follows:

1. Provision for monthly and lump-sum death benefits similar to and coordinated with those paid under the Social Security Act (January 1, 1947).

2. Liberalization of the conditions for the payment of annuities based on disability for all gainful employment, and introduction of a new type of annuity based on disability merely for the regular occupation (January 1, 1947).

3. Liberalization in general of the conditions under which minimum retirement annuities are payable to workers with low wage records, and increase in the amount of such annuities (January 1, 1947).

4. Lowering of the age requirement from 65 to 60 for full, non-disability annuities in the case of women with 30 years of service (January 1, 1947).

5. Addition of two new and higher daily benefit rates for unemployment insurance (July 31, 1946) and lengthening of the period for which unemployment benefits are payable (July 1, 1946).

6. Provision for the payment of cash benefits in case of loss of earnings due to sickness (July 1, 1947).

7. Provision for the payment of cash maternity benefits to women employed in the industry for loss of earnings before and after childbirth (July 1, 1947).

8. Increase in the tax paid by employers and employees for the support of the retirement and survivor benefit program, sufficient to place the system on a full actuarial basis (January 1, 1947).

The amendments also include several changes, especially in the retirement act, designed to clarify certain provisions in the old laws, simplify the administration of others, and eliminate certain inequities (mainly July 31, 1946).

### Death benefits

*New benefits provided.* The amendments provide monthly insurance annuities and lump-sum death benefits payable, for the most part, to the same classes of survivors as those covered by the Social Security Act and under analogous conditions.

These monthly benefits are payable to widows at age 65; younger widows with unmarried children of the deceased wage earner in

their care; dependent unmarried children up to age 18; and dependent parents 65 or over.

A lump-sum death benefit is also payable to the widow, children, parents, or persons who pay the funeral expenses (in that order), if the employee dies after 1946 and leaves no survivor entitled to an immediate monthly annuity.

The requirements of the Social Security Act with respect to dependency, adoption, and membership in the same household are for the most part applied identically in determining whether a widow, child, or parent is qualified for monthly benefits under the Railroad Retirement Act.

If the deceased employee was partially but not completely insured, however, only the widow's current and child's monthly benefits and the lump-sum death benefits are payable.

*Quarters of coverage and insured status.* Whether the deceased employee was completely or partially insured depends on his quarters of coverage. Quarters of coverage are either those defined in the Social Security Act or those determined on the basis of railroad compensation in accordance with the following tabulation:

<i>Total Compensation Paid in Calendar Year</i>	<i>Number of Quarters According to Specified Months of Service</i>			
	<i>1-3</i>	<i>4-6</i>	<i>7-9</i>	<i>10-12</i>
Less than \$50.....	0	0	0	0
\$50-99.....	1	1	1	1
\$100-149.....	1	2	2	2
\$150-199.....	1	2	3	3
\$200 or more.....	1	2	3	4

The need for such a tabulation arises from the fact that reports of service and compensation are in most cases filed with the Board annually and indicate merely the total compensation paid in the year and the months in which it was paid. Quarters of coverage from both social security and railroad earnings are combined, except that no more than 4 may be credited in any calendar year.

An employee is completely insured at the time of his death if he meets any of the following four conditions:

1. He has a current connection with the railroad industry and at least 40 quarters of coverage.

2. He has a current connection with the railroad industry and a number of quarters of coverage (but not less than 6) equal to at least one-half the number of calendar quarters in the period

after 1936 and before the quarter in which he died. Not counted among the elapsed calendar quarters in this period are the quarter containing the worker's twenty-first birthday and all earlier quarters, the quarter containing his sixty-fifth birthday and all later quarters, and any quarter during any part of which a retirement annuity was payable to him. Compensation and wages paid in the excluded quarters, however, are taken into account in determining the number of quarters of coverage. When the number of calendar quarters in the elapsed period is odd, it is reduced by one.

3. A retirement annuity based on at least 10 years of service began to accrue to him before 1948.

4. He was a former carrier pensioner whose pension was taken over by the Board as of July 1, 1937.

An employee is partially insured at the time of his death if he has a current connection with the railroad industry and at least 6 quarters of coverage in the period beginning with the third calendar year preceding the year in which he died and ending with the calendar quarter preceding the quarter in which he died.

*Current connection with the railroad industry on the date of death.* An employee has a current connection with the railroad industry on the date of his death if he has been in railroad service in at least 12 out of any 30 consecutive months before the month in which he dies (or, in the case of an annuitant, the month in which his annuity has become payable) and has not worked in any regular employment outside the railroad industry after that 30-month period and before the month in which he dies (or in which his annuity has become payable). In view of the provision crediting service under the Railroad Retirement Act toward survivor payments under the Social Security Act, an employee would normally have, as far as the quarters-of-coverage requirement is concerned, the equivalent insured status at death under both acts. The current-connection test, therefore, is an additional requirement that must be met before benefits may be paid under the Railroad Retirement Act. In the absence of a current connection, adjudication proceeds under the Social Security Act.

*Average monthly remuneration and basic amount.* The amount of the survivor benefits paid on the death of an employee who was completely or partially insured depends on the employee's basic amount, which in turn depends on his average monthly remuneration. To determine his average monthly remuneration, the amount of his combined earnings in both railroad and social security employment after 1936 and before the quarter in which he died is divided by the number of months in that period. Railroad earnings of more than \$300 in any 1 month and combined earnings

in excess of \$3,000 in any 1 year are excluded. The divisor may include months in which the employee did not work but does not include those up to the end of the year in which he reached age 22—except to the extent of three times the number of quarters of coverage acquired by the end of that year—and does not include those which fall in a quarter during any part of which a retirement annuity was payable to him.

The basic amount is equal to 40 percent of the first \$75 of the average monthly remuneration, plus 10 percent of the amount from \$75 to \$250, with an additional 1 percent of this combined sum for each year after 1936 in which the employee was paid \$200 or more from his combined railroad and social security employment. The basic amount has a \$10 minimum limit.

If the employee was completely insured only by meeting condition (3) or (4) above, the average monthly remuneration is not computed. Instead, the basic amount is calculated in the regular way from the average monthly compensation on which the retirement annuity or the original railroad pension was based, except that the 1-percent increment for each year after 1936 in which earnings amounted to \$200 is omitted and the \$10 minimum does not apply. If the employee was completely insured on the basis of condition (1) or (2) and also of condition (3) or (4), the basic amount is calculated both ways, and the survivors receive benefits computed from the higher amount.

*Calculation of death benefits.* The widow's annuity is equal to three-fourths, and the child's or parent's annuity to one-half, the employee's basic amount. These annuities are reduced by the total of any retirement annuity, other insurance annuity under the retirement act, and social security monthly insurance benefit to which the survivor would, on application, be entitled. If an annuity is \$5 a month or less, it may be paid in a lump sum equal to its commuted value.

The lump-sum death benefit is equal to eight times the basic amount but may not exceed the amount of the funeral expenses if it goes to the person who pays these expenses. When a lump sum would be payable except for the fact that a survivor is entitled to receive an annuity for the month in which the employee dies, and if within 1 year after the employee's death the total of annuities which accrue to his survivors is less than the amount of the lump sum, the difference is payable at the end of the year to any surviving widow, children, or parents.

If the total of all monthly annuities paid on the death of an employee is more than \$20 and also exceeds \$120, or twice the basic amount, or 80 percent of the average monthly remuneration, which-

ever is least, it is reduced to that amount but not below \$20. The test of 80 percent of the average monthly remuneration is, of course, not applied in the case of an employee whose basic amount derives from his having died completely insured under condition (3) or (4) above. At the lower extreme, if the total of all monthly annuities is less than \$10, it is raised to \$10.

Monthly death benefits are not payable for any month in which the survivor works in covered railroad employment, regardless of earnings, or in social security employment at wages of at least \$25, and deductions are made from both monthly and lump-sum death benefits under certain conditions.

*Duration of annuity payments.* The annuity becomes effective on the first of the month in which the survivor meets all the qualifications (but not before 1947), provided a valid application is filed before the end of the third following month. If the application is not filed within the prescribed time limit, the annuity begins with the month in which it is filed. An application is not acceptable if it is filed more than 3 months before the month in which the survivor first meets the necessary qualifications. The annuity remains in effect until the end of the month preceding the one in which the survivor is no longer qualified to receive it.

*Integration with social security benefits.* As has been said, social security wages are counted toward survivor benefits under the Railroad Retirement Act. Likewise, to determine social security benefits which begin to accrue after 1946, the amendments make railroad service creditable as employment under the Social Security Act, and compensation reported to the Board for such service is credited as wages for such employment. In effecting the transfer of credits, railroad compensation for any year is presumed to have been evenly distributed over the months of service in that year. The Railroad Retirement Board and the Social Security Administration are required to supply each other, on request, with certified service and wage records pertinent to their respective spheres of administration.

Provision is made to prevent dual benefits. Thus, a survivor entitled on application to receive before 1947 a social security monthly benefit on the basis of an employee's wages is entitled to a monthly benefit payable under the Railroad Retirement Act with respect to the death of the same employee only if the second benefit is larger; in that case the social security benefit will not be paid. Moreover, once a survivor is entitled, on application, to receive a monthly or lump-sum death benefit under the Railroad Retirement Act, he is not entitled to a lump-sum or, for any month after 1946, a monthly social security benefit based on the death of the same employee.

The amendments thus accomplish a major extension of the coverage of the Social Security Act, at least with respect to survivor benefits. The importance of this extension is evident from the fact that, of the more than 7 million persons who have come under the coverage of the Railroad Retirement Act since 1936, probably more than 4 million have also been covered under the Social Security Act. Perhaps in a majority of the cases currently reported to the Railroad Retirement Board of the death of a present or former railroad employee who has not yet retired, the employee had some social security employment. The need for a similar coordination of credits under the two systems for retirement benefits is, at least for the present, not so great as in the case of survivor benefits, since the bulk of the employees with split coverage are still relatively young, while substantially all employees currently qualifying for railroad retirement annuities have never worked in social security employment.

### **Disability retirement annuities**

Before the amendments were approved, the retirement act provided annuities to employees who were "totally and permanently disabled for regular employment for hire" and who, in addition, were 60 years of age or had acquired 30 years of service. Annuities awarded on the basis of less than 30 years of service were subject to a reduction of 1/180 for each calendar month the employee was under age 65 on the date the annuity began. The regulations of the Board made the concept of invalidity more precise by providing that an individual was to be considered permanently and totally disabled if (1) his mental or physical condition was such that he was unable to perform regularly, in the usual and customary manner, the substantial duties of any regular and gainful employment with any employer whether or not subject to the act, and (2) the facts of his mental or physical condition afforded a reasonable basis for an inference that this condition was permanent.

Although almost one-fifth of the employees retiring in the recent past were being awarded annuities under the disability provisions, for many others these provisions proved to be too restrictive. The high standards of physical and mental competence applied by the railroads often resulted in removing from active service persons who were disabled insofar as the practices in force on the railroads were concerned but who in many instances were not disabled for "regular employment for hire." The majority of the latter were not fitted by experience or training to engage in any other occupation



which would yield an income comparable to their previous earnings. Many, moreover, because of their age or physical handicap, were unable to find any employment even under relatively favorable labor-market conditions.

Furthermore, many cases occurred in which an applicant who had not yet reached his sixtieth birthday could prove permanent and total disability according to the statutory definition but lacked the required 30 years of service. The applicant, in these circumstances, was obliged to wait until he reached age 60 before becoming eligible for an annuity.

*New provisions.* The amendments liberalize the disability provisions of the retirement act by providing that (1) an employee under 60 years of age who is disabled for all gainful work may qualify for a disability annuity on the basis of 10, instead of 30 years of service; (2) an employee who becomes disabled for all gainful work with less than 10 years of service may qualify for a disability annuity at age 60 as before, but the reduction of 1/180 in the amount of annuity for each month he is under age 65 is eliminated; (3) an employee who is permanently disabled for work in his regular occupation may qualify for a disability annuity if he is 60 years of age or has acquired 20 years of service, provided he has a current connection with the railroad industry on the date the annuity begins.

An employee's regular occupation is the covered occupation in which he was engaged in the greatest number of calendar months in the last 5 calendar years (not necessarily consecutive) before the date the annuity began, in each of which he earned compensation. If he worked in some other occupation in at least half of all the calendar months in which he was in covered employment during the last 15 consecutive calendar years before the beginning date of the annuity, he may claim that as his regular occupation instead.

The Board, in cooperation with employers and the employee organizations, must establish standards determining the physical and mental conditions which permanently disqualify employees for work in the several occupations in the railroad industry. An employee's condition is held to be disabling for work in his regular occupation if he has been disqualified by his employer for service in that occupation in accordance with the applicable standards; if he has not been so disqualified, the Board itself determines, in the light of those standards, whether his condition is disabling. The Board has no authority over the employment rights of any employee, nor may it require an employer to disqualify or not to disqualify an employee. If, in spite of the establishment of an acceptable standard for the industry as a whole, a particular railroad

chooses not to disqualify an employee who meets that standard, the Board may not require his dismissal but may award him an annuity if he chooses to quit service of his own accord.

An employee on the disability annuity rolls must, as under the old law, submit such proof of the continuance of disability (under the standards applied in establishing the disability) as the Board may from time to time prescribe and until he reaches age 65. The annuity ceases on the last day of the month in which the employee recovers from disability. Under the old law, performance of gainful work did not of itself constitute evidence of recovery. The Board considered each case on its merits to determine whether the employee's ability to work was compatible with the ruling of disability. This provision remains in effect so long as the employment is only casual or intermittent. An additional provision is introduced, however, under which a disability annuitant who earns in service for hire, or in self-employment, more than \$75 in each of any 6 consecutive calendar months is considered to have "recovered" in the last of the 6 months, regardless of his actual physical condition.

### **Retirement annuities to women**

The unamended law contained a provision, retained in the amendments, under which a nondisability annuity can be awarded any time after age 60 to an employee with 30 years of service. Such an annuity was subject to a reduction of 1/180 for each month the employee was under age 65 on the annuity beginning date. The amendments remove the reduction in the case of women. The effect of the change on the retirement system is not great because of the relatively small number of women who accumulate as much as 30 years of service in railroad employment, but it is significant in that it recognizes that employed women normally become unable to continue work at a much earlier age than men.

### **Sickness benefits**

Before benefits may be paid under the Railroad Unemployment Insurance Act the applicant must, at the present time, show that he is "able to work." Thus, if he becomes unemployed because of sickness or other disability, or if he becomes unemployed while able to work and then falls ill, he is disqualified for unemployment insurance benefits during the period of disability. He thus suffers a loss of wages just at a time when his expenses for medical care may

be heavy, unless his inability to work is the result of a work injury, in which case the employer may be liable for damages. In the railroad industry, however, unless a State workmen's compensation law is applicable, no liability is ordinarily attached if the employer can establish lack of responsibility for the injury; in most other industries the principle is almost universally accepted that the employer, even though without fault, is liable for occupational injuries.

The amendments do not undertake to provide directly for the medical and related care of disabled workers. They are intended to provide cash benefits to replace in part the loss of income whether the worker is unemployed because of illness or other reasons. These are the first government sickness benefit provisions applicable on a national scale and the first which do not require deductions from the wages of employees. Except for an occasional plan established by State and local governments for their employees, only two other government plans for the payment of cash sickness benefits have been enacted—one in Rhode Island and the other in California—and in these only the covered employees contribute to the benefit fund.

Sickness benefits will be payable in the benefit year beginning July 1, 1947 for any disabling injury or sickness if the employee does not receive wage payments during his disablement and submits as evidence of his disablement a statement signed by a doctor or by any other qualified person authorized by the Board. Payments will be in addition to and apart from benefits for unemployment for reasons other than sickness. Whether or not the illness or injury was related to his employment will not affect the employee's rights to benefits, but if he becomes entitled to payment for damages, such as a settlement under the Federal Employers' Liability Act, the Board will be entitled to recover such payment up to the amount of the benefits. A worker may not ordinarily receive both other government social insurance benefits and sickness benefits for any particular period, but, as in the case of the regular unemployment benefits, he may without prejudice receive payments for the same illness under any nongovernmental plan, such as fraternal or group sickness insurance.

Benefits for sickness will be provided on substantially the same basis as those for unemployment, and the provisions dealing with registration periods, daily benefit rates, and maximum duration remain unchanged. Days of unemployment and days of sickness may not, however, be combined in the same registration period, but if an employee becomes sick before the end of an unemployment registration period he may begin a sickness registration period immediately. Similarly, if he becomes available for work but fails to

find employment before the end of a sickness registration period, he may begin an unemployment registration period immediately.

In the benefit year 1943-44, it is estimated, workers entitled to benefits under the Railroad Unemployment Insurance Act lost about 17.2 million days because of disabilities other than those arising from industrial injuries. This was the equivalent of a loss of a year of full-time work for almost 60,000 workers. Taking into account the waiting period for sickness benefits and the number of illnesses of various durations, the Board has estimated that about 48 percent of the days of sickness would have been compensated if the amendments had been in effect for that year.

### Maternity benefits

The amendments provide separately for benefits to qualified women employees for each day in a maternity period. Such a period is defined as beginning 57 days before the expected birth of the child and extending for 116 days, or at least until the thirty-first day after the day the child is born. If birth takes place after the eighty-fourth day of the maternity period, no benefits will be paid for the days after the eighty-fourth and before the date of birth. Benefits will thus be payable, in any event, for a total of 116 days.

The daily benefit rate will be the same as for unemployment and sickness, except that the benefit rates for the first 14 days of the maternity period and for the 14 days immediately following the birth of the child will be  $1\frac{1}{2}$  times the regular rates. Thus, the maternity benefits payable to a qualified employee will total 130 times the daily benefit rate. Maternity benefits will not be affected by any sickness or unemployment benefits that may have been paid to the same employee earlier in the same benefit year, and vice versa. Once maternity benefits become payable, they will continue to the end of the maternity period even if it extends into the next benefit year. If the employee is not qualified when the maternity period begins, but the period extends into a year in which she is qualified, benefits will become payable for the portion of the maternity period included in the latter year.

### Increase in taxes

The Carriers Taxing Act of 1937 (incorporated in 1939 into the Internal Revenue Code) provided for the financing of the retirement program by a tax, to be divided equally between employer and employee, on the first \$300 of the monthly compensation. The ultimate rate of  $7\frac{1}{2}$  percent was to be reached in 1949 by succes-

sive triennial increases of  $1\frac{1}{2}$  percent over the initial  $5\frac{1}{2}$ -percent tax set for 1937. Two actuarial valuations of the program established the need for a higher tax schedule if the fund was to be maintained indefinitely on a full reserve basis. The Board, in a majority statement presented at the hearings on the amendments, estimated for the future a level annual taxable pay roll of \$3.5 billion, and on that basis recommended a  $1\frac{1}{2}$ -percent increase in the ultimate tax rate. The Board also estimated that, to meet the cost of the new benefits, a further increase in taxes of  $3\frac{1}{2}$  percent of compensation would be necessary. The new tax schedule— $11\frac{1}{2}$  percent for the 2 years 1947 and 1948, 12 percent for the next 3 years, and  $12\frac{1}{2}$  percent thereafter—agrees substantially with these estimates. The principle of equal division of the rate between employer and employee is maintained.

## PUBLIC ASSISTANCE

*Digest of Issues in Social Security, Part II. Report to House Ways and Means Committee, 1946. Senate Committee Print, 80th Cong., 1st Sess., 1947.\**

THE PRINCIPAL problems which have arisen in the Federal-State programs of public assistance for needy individuals [include]—

(1) Limitations under Federal law [upon] meeting needs which exceed maximums that will be matched [from Federal funds], the disparity among States in the levels of public assistance payments; and

(2) [Limitation] of Federal financial participation to selected groups of needy persons.

Under titles I, IV, and X of the Social Security Act the Federal Government provides for matching money payments to needy persons under approved State plans for (1) old-age assistance, (2) aid to

\* The text presented in this part is in the exact language used in *Issues in Social Security* except in the case of interpolated material indicated by brackets as follows: [ ]. The 1946 (and 1948) amendments to titles I, IV, and X which were enacted subsequent to the publication of *Issues in Social Security* render many sections of that report obsolete. No indication is given of the omission of words or paragraphs included in the original but not repeated here.

dependent children, and (3) aid to the blind.† [These three programs are known as special-assistance programs to distinguish them from the general assistance programs of State and local governments, which without benefit of Federal aid, are intended to meet needs not covered by the Federal-State measures.]

Provisions in the [Social Security Act] in no wise prevent the States or localities from establishing assistance programs on a broader base of coverage or with more liberal grants to individuals. There is a tendency, however, for States to organize their programs in such a way as to obtain the most funds in Federal matching for a given State expenditure. States which have established programs broader than the Federal provisions for matching often feel that the unmatched portion of their expenditures should receive like Federal consideration. In States which have limited their programs to the Federal provisions for matching, some needy persons inevitably receive no care or inadequate care.

### Experience since 1935 in the special types of public assistance

The establishment with Federal participation of State programs of old-age assistance, aid to dependent children, and aid to the blind has been a gradual process. Yearly since 1935 when the Social Security Act was enacted, new State-Federal programs have been inaugurated. Now, State-Federal programs of old-age assistance are being administered in all 48 States, the District of Columbia, Alaska, and Hawaii. Of these 51 jurisdictions, all but 1 (Nevada) has a State-Federal program of aid to dependent children, and all but 4 (Alaska, Missouri, Nevada, and Pennsylvania) have State-Federal programs of aid to the blind. Thus, the public assistance provisions of the Social Security Act are in effect on substantially a Nation-wide scale.

*Persons receiving aid.* In the United States in [June, 1947, approximately 2,271,000 persons were receiving old-age assistance; 396,000 families containing more than a million children were receiving aid to dependent children; and 79,000 persons were receiving aid to the blind. For the country as a whole, 214 out of every 1,000 persons 65 years of age and over received old-age assistance. Of every 1,000 children under 18 years of age, 23 received aid to dependent children. Of every 100 persons estimated to be blind, 27 were receiving aid to the blind.]

*Trend in load.* From 1936 until 1942, when wartime demands

† Congress amended the public assistance provisions in 1948. Effective October 1, 1948, Federal financial participation was increased. See Introduction to Chapter III for specific changes in the Federal law.

for labor became acute, the number of recipients of each type of aid rose steadily. During the war the number of recipients of old-age assistance and aid to dependent children declined substantially. Declines occurred also in established programs of aid to the blind, though these declines are obscured by the inauguration in 1943 of a new State-Federal program of aid to the blind in Illinois.

The continuous decreases in the number of persons and families receiving assistance during the war years when the employment market offered job opportunities to persons not normally employed or employable is evidence of the essential flexibility of assistance programs. The sharp reductions in assistance rolls demonstrate also that needy persons prefer self-support to dependency. [Since the war assistance rolls have again begun to rise.]

*Payments to recipients.* [In June, 1947, payments of old-age assistance in the United States totaled approximately 82 million dollars. In States administering programs under the act, payments of aid to the blind were about 2.4 million dollars and of aid to dependent children, 24 million dollars. The average old-age assistance payment was \$36.04, and of aid to the blind, \$37.87. Payments of aid to dependent children averaged \$61.68 per family.]

*Trend in average payments.* Over the years, levels of assistance have risen substantially. The rise in average payments represents in part an increase in the amounts allowed to meet the rising cost of such requirements as food, shelter, and clothing, in part to the recognition of a wider range of requirements and in part to the withdrawal of certain supplementary assistance formerly available to recipients; namely, surplus commodities and surplus food stamps. In some cases, categorical payments now include amounts formerly provided from general assistance to supplement the categorical payment. Average payments for the Nation fail to reveal the variations among States in levels of payments.

*Fiscal arrangements—source of funds.* All states claiming Federal funds must provide for State financial participation in the costs of the special types of public assistance. Whether the State will bear the entire non-Federal share or will require some local financial participation is determined by the State. Patterns of State-local financial participation in the special types of public assistance, therefore, vary from State to State and often differ among programs within a State.

[The degree of Federal, State, and local financial participation is not uniform as between one public assistance program and another. In 1944, for example, Federal funds amounted to ap-

proximately 48 percent of all expenditures for old-age assistance payments, 47 percent of all payments for aid to the blind, and 36 percent of payments for aid to dependent children. In all instances these proportions were higher than during the earlier years of the Federal-State programs.]

### **Current provisions for needy persons not covered by the social security act.**

In most parts of the country, persons who are not eligible for special types of public assistance have less assurance of receiving adequate aid—or any aid—than the groups of needy persons for whom Federal funds are available. For the sake of convenience, all local forms of home relief to these uncovered persons have been termed “general assistance.” The major reasons for the unevenness of general assistance lie in the administrative and financial pattern for aiding this residual group.

*Organization, supervision, and financing.* General assistance is administered in the United States by more than 10,000 local units—counties, villages, and towns.

In over two-thirds of the States with State agencies having some responsibility for general assistance the degree of State leadership ranges from practically no participation in the policies and practices of the local units to administration by State agencies through branch offices in the counties. It is only natural that eligibility and amount of assistance should vary with each independent administrative unit.

In 1944, 14 States assumed no financial responsibility for general assistance and 3 other States contributed less than 3 percent of the cost. In the country as a whole in 1944 local funds [totaling \$48,000,000] met only 7 percent of the cost of old-age assistance, about [13] percent [representing a total of 2.5 million dollars] of the costs of aid to the blind, and about [17] percent [\$23,000,000] of the costs of aid to dependent children. For general assistance however, the local share [\$46,000,000] was 52 percent [of the total].

Except in large metropolitan areas and in wealthy residential communities, the limited revenue sources available to counties, cities, or towns sharply restrict the funds that localities can muster for general assistance. In States with relatively low fiscal ability, the opportunity to receive matching Federal funds for the special types of public assistance has tended to limit—rather than to increase—State and local funds for general assistance. Since each State-local



dollar spent for the special types of assistance—up to the matching ceilings—draws to it a Federal dollar, States have tended to use their available funds for the federally matched programs. As long as the general-assistance program remains outside the scope of Federal grants-in-aid, it will be at a financial disadvantage.

The imbalance between expenditures for the special types of public assistance and for general assistance is illustrated by comparing expenditures for the programs per capita of the State population. One-fourth of the States [in 1944] spent more than 20 times as much per inhabitant for the special types of public assistance as for general assistance; 2 States spent over 100 times as much. These differences far exceed what normally would be anticipated from known facts on differences in need in the various population groups.

*Extent and amount of general assistance.* During the war years, relatively few people needed general assistance. In August, 1945, 230,000 cases, representing approximately 420,000 persons, received [this type of aid]. The number of cases aided in June, 1947 was 335,000.

[In proportion to population, the numbers of cases granted general assistance in the various States show very great disparities. In June, 1947, for example, general assistance was granted to 923 cases per 100,000 population in Maryland, while in Mississippi the rate was only 35 cases per 100,000 population. By contrast, the incidence of special assistance—with the benefit of Federal and State financial participation—in the various States showed less disparities than did the incidence of general assistance. The incidence of general assistance in the State having the highest rate was 26 times that in the State with the lowest rate, although the highest rates for old-age assistance, aid to the blind, and aid to dependent children were only about 11 times the lowest State rates. . . .

The average payment for general assistance in the United States in June, 1945 was \$29 per case for the month. Averages ranged from \$45 per case in New York to \$9 in Mississippi. [In June, 1947 payments averaged \$39.18, ranging from \$65.55 in New York to only \$10.12 in Mississippi. . . .

In many States, standards of general assistance are substantially lower than those of the special types of public assistance. Sometimes the amounts allowed for certain requirements are smaller, the range of recognized requirements is narrower, evaluation of resources is more restrictive, and larger cuts in payments are made from the amount of established need when funds are insufficient.

[When general assistance payments for the country as a whole averaged \$39.18 per case (in June, 1947) old-age assistance payments

per individual averaged \$36.04. However, in 30 of the 44 States for which comparable data are available, old-age assistance payments per individual averaged more than did general assistance payments per case.

[General assistance payments in 1946 totaled approximately \$121,000,000. This was only slightly more than a quarter of the total general assistance payments in 1936 and only about 8 percent of the depression peak of 1935 when the Federal work program was not yet under way.]

### A more adequate aid

States tend to limit [special] assistance payments to amounts matchable from Federal funds, but those that do not so limit them feel that Federal matching should be extended to their more liberal grants. On the other hand, some States, usually because of limited funds, restrict assistance payments to amounts below need for assistance even though higher payments would be matchable.

The size of a recipient's monthly payment and the Federal contribution to it varies almost as much because of differences in State standards [and available funds] as because of differences in the amount of need. This State-to-State variance is substantially greater than is justified by difference in cost of living.

**Average state payments.** Although the 1946 amendments were intended in part to reduce the disparities in payments made by the various States, these have, nevertheless, remained considerable. Old-age-assistance payments, which in June, 1947 averaged \$36.04, ranged from \$65.11 in Colorado to only \$15.09 in West Virginia; aid-to-the-blind payments ranged from \$62.84 in California to \$18.05 in West Virginia; and family payments under aid to dependent children ranged from \$105 in Washington to \$24.43 in Mississippi.

State differences in levels of payments may be explained by a complex of factors. Most important is the difference in the availability of State and local funds for assistance. Stringency of funds often results in (1) comparatively low standards for determining requirements, (2) relatively restrictive policies for considering income and other resources, and (3) the making of payments amounting to less than 100 percent of need as determined under the prevailing standards. Standards for determining requirements of needy persons reflect State differences not only in fiscal resources but also in modes of living and cost of living. Still other circumstances account in

part for the variations in average payments. Though the majority of States impose maximums on payments equal to the amounts of the Federal ceilings for matching, some States have higher or lower maximums, and some have none. In some States, amounts for medical care are included in the money payment; in other States, medical care is provided from general assistance funds, through staff services, or in some other manner. In some States, the needs of the entire family [including a spouse, older children, or other relatives for whom Federal matching is not available] are supplied through [special assistance] whereas in other States such needs are supplied from general assistance funds or not at all.

### Inadequacies of present maximums

When assistance is limited to the amounts that can be shared equally with the Federal Government, the most needy recipients bear the burden in terms of inadequate assistance.

[Agency standards frequently allow needy persons more than the Federal maximums, and, some States make payments in excess of the Federal maximums in a considerable number of cases.

[The maximum payments in effect when *Issues in Social Security* was written were shown by the report to have been inadequate for many recipients. Even after the 1946 amendments, data for January, 1947 indicate that no fewer than 20 percent of old-age assistance recipients, 21 percent of aid to the blind recipients, and 49 percent of the families granted aid to dependent children actually received payments in excess of the Federal maximum limits.]

**Relation of state maximums to federal maximums.** By November 1, 1945 [when the Federal maximum for both old-age assistance and aid to the blind was \$40 per recipient], 8 States had maximums above \$40 for old-age assistance, another 6 States permitted higher payments for recipients with special needs, and 12 States had no maximums. For aid to the blind, 4 of the 47 States with State-Federal programs had maximums above \$40, 4 permitted higher payments in special circumstances, and 13 had no maximums. For aid to dependent children, 7 States had maximums higher than the Federal ceilings; 11 of these permitted higher payments if the payment included medical costs, and 26 States had no maximums.

[The increases in the Federal maximums under the 1946 amendments were immediately reflected by similar action on the part of the States. Between September, 1946, and January, 1947, 1 State deleted its maximums, 24 States raised their maximums for old-age assistance, 20 States raised those for aid to the blind, and 14 raised those for aid to dependent children.]

In aid to dependent children the amount of the Federal maximum is based solely on the needs of the children—the need of the mother is ignored insofar as Federal matching is concerned. Accordingly, in States that deal realistically with the problem, the cost in most cases greatly exceeds the amount the Federal Government will match. The portion of State expenditures under this program matched by Federal funds is much lower than under the other public assistance programs, though care of children is more important to the Nation's future than care of any other group.

*Payments limited to federal ceilings.* Among States which have retained maximums, the present Federal ceilings remain the most common State maximums. Legislatures in some States which limit payments to the Federal ceilings have set their maximums in terms of whatever amount is established by the Federal act. On the other hand, some States that have no legal maximums, because of inadequate appropriations, limit payments by administrative action to the amount subject to full Federal matching.

[Assistance] payments [as discussed here] do not include amounts paid by assistance agencies to hospitals and physicians for medical services to recipients, in which Federal funds do not share. In some of the States supplementary payments of general assistance have been made to the families or persons whose minimum needs exceed State [special assistance] maximums. Such expenditures increase still further the disparities between the Federal and the State-local shares.

*Changing or removing federal maximums.* To encourage States to make payments, when needed, in excess of present maximums, either of two methods might be adopted—the maximums might be removed, or they might be raised or otherwise liberalized.\*

*Removal of Federal ceilings.* Some States have found it feasible to share in payments based on the amount of need determined by local workers without placing arbitrary limits on payments. The same plan applied in the Federal-State partnership would simplify administration, since the Federal Government would then participate in whatever amount the State found necessary for all persons eligible under the Social Security Act.

Procedures [established by] assistance agencies for determining the amounts of payments [even in the absence of ceilings of any kind] serve as a continuing control on expenditures. Payments are based on standards set by the agencies. State and sometimes local

\* Since *Issues in Social Security* was printed, the then prevailing maximums have, as has already been noted, been slightly increased. The basic problem remains unchanged, however, inasmuch as the small increases in maximums authorized in 1946 still leave many needs unmet.

responsibility for sharing in the costs of assistance keep standards within the fiscal capacity of the governmental units.

*Liberalizing Federal matching provisions.* A maximum in terms of an average amount per person aided would provide greater flexibility than the present maximums on individual payments and would be easier to administer. Within the limits imposed by such a maximum, States could use Federal funds as they were needed in meeting the exceptional requirements of some recipients as well as normal needs. The amounts above the average required for some recipients would tend to be balanced by amounts below the average for recipients with lower requirements or other resources. In addition, if parents or persons acting in place of parents were included among the recipients of aid to dependent children in determining average payments to be matched States would be encouraged to make more nearly adequate payments to families receiving this type of assistance.

**Federal aid for medical care.** Experience of State agencies suggests that maximums on payments to individuals are a special problem in meeting health requirements of needy individuals. Health care is a common requirement like food, shelter, and clothing. But unlike them, it often involves large expenditures, usually without previous warning.

\* \* \*

**Effect of Federal maximums upon provisions for medical care.** [In States that] limit medical care to those costs which can be met within the maximum payment, the needy persons' requirements may not be met; if, on the other hand, these needs are met the burden will be passed on to the doctor, hospital, or other health agency. Most States make some provision for medical care either outside the money payment or in payments larger than those toward which the Federal Government can contribute. These States believe that the Federal Government should share in such assistance costs.

Federal payments are available at present only for those medical costs which can be budgeted to the recipient [of special assistance].

Maximums on grants limit the provision of adequate medical care, both because the maximums are low and because most medical needs cannot be planned for in regular budgeting. Although such costs can be estimated and averaged over a period for a group, as an insurance risk, this average cannot be budgeted to an individual, as can be done with the average cost of food or clothing. On the other hand, if the State or local agency budgets medical expenses for an individual at the time they arise, the individual payment may exceed Federal maximums and place a burden for the

excess upon the State or local community. If a higher average were matchable with Federal funds, this would encourage States to remove or modify their own maximums and to expand or create medical-care programs.

*Effect of Federal participation only in money payments to individuals.* The requirement in the [Social Security Act] that all assistance be cash also limits the provision of adequate medical care. Unlike the provision of food, lodging, and clothing, medical care is usually rendered before payment is made. Further, the cost of a recipient's last illness may not be known until after his death. This can be a sizable problem since in the period of a year 1 old-age-assistance recipient in 14 dies. If the recipient dies before the medical bills are presented they cannot be met through money payments to the recipient. As a result, the cost of this care, if the recipient had no insurance or other estate, must be paid wholly from State or local funds.

*Meeting health requirements.* If Federal matching maximums are eliminated or if payments for medical care directly to doctors, hospitals, and other health agencies are exempted from the maximums, States would be encouraged to establish or improve medical-care programs. If Federal maximums are changed to an average-per-case basis, the excess cost of medical care to particular individuals could be spread over the entire group of recipients. If the Social Security Act is amended to adjust the maximums and/or permit matching of payments for medical care made to doctors, hospitals, and other agencies, the States will be encouraged to adopt the most effective type of plans for medical care, within their financial ability.

### **Extension of aid**

The assistance programs in which the Federal Government now participates financially are restricted to particular groups. Responsibility for other needy persons rests wholly on the States and localities. In many parts of the country exclusion of these others from the Federal grant-in-aid programs has resulted in relatively small [and in some States no] State appropriations and hence in very uneven local provision for needy people who are not eligible for the federally matched types of public assistance. In some places such persons can get assistance only on a meager emergency basis, if at all.

**Types of needy persons not currently assisted by federally aided programs.** For the most part these persons are in need for the following reasons:

- (1) Physical or mental handicap or chronic illness.
- (2) Unsuitability for employment because of age or home responsibility.
- (3) Temporary illness of the breadwinner.
- (4) Inability to obtain employment.

As long as suitable work is available, the vast majority of employable persons provide for themselves and their families. At all times [however], demands for labor are unevenly distributed.

Though unemployment insurance is intended to supply income during transitional periods of unemployment, some workers—among them domestic and agricultural workers, the self-employed, and, in many States, workers in small establishments—are not covered by State unemployment insurance laws. Moreover, in abnormal times many insured workers who lose their jobs exhaust their unemployment benefits and require assistance before they obtain a new job.

*Need not covered by general assistance.* Although the varied State-local general assistance programs purport to be the catch-all for needy persons not covered by the special types of public assistance, several types of need remain uncovered by any program. The restrictive nature of general assistance is the result of (1) State laws such as those establishing requirements of residence or settlement, (2) interpretation due to the local autonomy of the majority of general assistance units, and (3) lack of adequate financing.

Restrictive action of laws or administrative regulation regarding residence or settlement vary from State to State and from locality to locality. In general, it may be said, the person who does not "belong" in a community cannot expect continued assistance in the community, and may frequently expect to be uprooted from such community and returned to the community where he "belongs" if he needs assistance. It often occurs, because of conflicting State or local laws regarding settlement, that an individual does not legally "belong" anywhere.

Stringency of funds and local interpretations due to the great number of autonomous local units often cause general assistance agencies to impose additional conditions of eligibility. Thus, in some places, general assistance has been denied to various groups regardless of the extent of their need; for example, to childless couples, single persons, employable persons, self-employed persons, and persons with any other income, no matter how insufficient. Standards for determining need vary greatly from place to place. General assistance is extremely meager in some counties and in others is wholly lacking.

**Federal participation in aid to childless widows, the infirm, and employable persons unable to obtain work.** Several suggestions have been advanced for the extension of Federal participation in assistance to needy persons not currently eligible under the public-assistance titles of the Social Security Act. Extension of coverage in varying degrees is possible by (1) liberalizing eligibility under existing titles of the Social Security Act; (a) by removing Federal restrictions, in aid to dependent children, (b) by elimination of allowable State restrictions such as residence requirements, and (c) by adding groups of similar need to existing titles of the act; and (2) by adding another title to the Social Security Act to provide for Federal-State cooperation in assistance to all needy persons not covered by other titles.

*A new title to the social security act.* A new title to the Social Security Act, according to this proposal, would provide for Federal participation in assistance to all needy persons in States with approved [plans]. The general requirements of the act in regard to approval of State plans could be the same as under the other titles, except that if complete coverage is to be assured the title should provide (1) that medical care could be provided by direct payment to doctors, hospitals, and other health agencies for services; (2) that the State plan should not establish any condition of eligibility dependent upon (a) age, (b) employability, or (c) residence and citizenship, and (3) that the State plan should provide for a system of registering and clearing with appropriate public employment services all employable members of assistance cases.

Federal participation in general assistance would in no way conflict with public policy regarding expansion and strengthening of the present social-insurance programs or the development of a health program.

*Adjustment of eligibility requirements for aid to dependent children.* Federal participation in general assistance to all needy persons not assisted under the special public-assistance programs would encourage similar State action. With such State action the needs of dependent children not met through aid to dependent children would be provided for under general assistance. Coverage could, of course, also be obtained by amending the present Federal-State programs for dependent children.

Certain dependent children do not receive assistance under title IV of the Social Security Act either because of a limitation in the act, or because of a limitation in the States' plans. Children in whose aid the Federal Government clearly cannot now share include those who (1) are living with persons other than the relatives specified; (2) are aged 16 and 17 and are not attending school; or



(3) are in want because of the parent's unemployment or low earnings.

If these needy children are to receive assistance on as favorable a basis as those eligible for aid to dependent children, it will be through extension of State coverage. Experience to date indicates that usually such extension will not be effected without Federal participation in cost.

Aid for needy children not now covered by title IV of the Social Security Act could be provided through establishment of Federal grants to States for general assistance as well as by extension of Federal matching in aid to dependent children.

If coverage of aid to dependent children were broadened and Federal funds provided for general assistance, a State would have the option of aiding needy families with children under whichever program seemed more suitable. Under either program, the process of determining eligibility could be simple.

**State residence requirements.** The issue of residence requirements may be described as the issue between State-local responsibility and individual needs. The recent arrival in a State may differ in no measure in his need or as a general public problem from a person who has lived in the State all his life. Under existing law the Federal Government stands equally ready to share in the costs of providing public assistance to each.

A condition upon approval of Federal participation in [aid to dependent children] has limited to 1 year the residence requirements which may be imposed. In the case of [aid to] the aged and the blind, [a longer period of residence may be required]. Obviously, exclusions on the basis of residence would be greatly reduced if the maximum permissible residence requirements were made 1 year for these groups. Such a change would doubtless lessen the problem, but it would still leave the issue unsettled.

From the viewpoint of Federal participation in public assistance it is difficult to justify deprivation of aid of an American citizen solely on the grounds of his residence. The vast majority of administrators and students of public assistance believe that residence requirements are inappropriate, cruel, administratively cumbersome and expensive, and socially unjustifiable.

Residence requirements necessitate considerable unproductive administrative effort. Proofs are often difficult to obtain, especially if the applicant has lived in various communities. Delays in providing assistance are embarrassing, particularly where the delay is long because of difficulties of obtaining proof to satisfy complicated interpretations of the meaning of residence. Moreover, the question

still remains as to what the community is to do about needy individuals found ineligible because of residence requirements.

For those who fear that a State with fairly high payments may be flooded with needy cases from areas where payments are very low, the proposed variable Federal grants might considerably change the viewpoints, since such grants would minimize wide differences in assistance payments.

*The problem of nonresidence.* Munitions and equipment for war have been manufactured not only in centers of peacetime industry but also in newly built centers in various parts of the country. The Bureau of the Census has estimated that 7,800,000 people were living, in March, 1945, in a different State from that in which they lived in December, 1941. They represent about 6 percent of the Nation's population. The complex process of reconversion will require further shifts of population.

There appear to be three principal approaches to the solution of the problem of residence requirements in public assistance.

*Uniform laws regarding residence.* One approach might be the establishment of a uniform 1-year residence requirement for all States, with eligibility retained in one State until gained in another. This provision would not eliminate extensive investigation of each applicant's residence, including extensive interstate correspondence to determine receipt of relief or to prove residence established in another State.

*Federal care for nonresidents.* A second approach—assumption by the Federal Government of the entire cost of assistance to nonresidents—retains residence requirements but only for fiscal reasons. Questions would arise as to whether the recipients for whom the Federal Government was wholly responsible would be cared for under State or Federal standards. Experience in administering the Federal transient program under the Federal Emergency Relief Administration has shown the difficulty of classifying people on the basis of residence. States might be inclined to classify as many applicants as possible as nonresidents and so shift the entire burden of their support to the Federal Government. Far from lessening investigations of residence, [this proposal] might actually increase this activity.

*Abolishing residence requirements.* The only approach which would remove all the existing difficulties inherent in the residence requirements—investigations, delays in payment, etc.—would be to require that the State plan contain no residence requirement. Abolishing residence requirements does not mean, of course, that assistance will be paid to persons who live in one State but apply for assistance in a neighboring State. It does mean, however, that per-

sons living in a State or finding themselves stranded in a State without other means of support would not be denied aid.

Such an approach differs from the other approaches in degree, but not in major effects on taxpayers. Under either of the first two approaches individuals are assured public assistance for the period necessary to qualify them for assistance under the laws of a State. Thus, after the first year, the burden of assisting new residence would be the same under any of the foregoing.

**Redefinition of economic reasons for eligibility.** The expansion of Federal participation in assistance to the groups discussed above would provide for reasonably adequate aid under present concepts of need. Certain [suggestions put forward from time to time] propose altering the basic concept of need, either by exempting certain income and resources or by providing a fixed grant irrespective of need.

The Social Security Act, as currently interpreted, requires consideration of all income and resources of the applicant, or recipient, except those that are inconsequential. This provision is based on the thesis that equal need shall be met by equal aid.

During the war a special provision was made for allowing exemption of earnings from agriculture under certain conditions for old-age-assistance recipients. The justification for this exemption was that it would encourage such persons to work on farms where there was emergency need for labor.

The result of a fixed exemption would be to break down the relation of assistance to need.

If exemptions [of, for example, \$20 to \$25 per person per month were authorized] a person requiring \$40 per month to meet his need could have a monthly total of \$60 or \$65 if he were fortunate enough to have earnings equivalent to the exemption. An individual with need for \$20 and income of \$20 would still be eligible to receive \$20 in assistance.

[Exemptions of specified resources or income, in determining need for public assistance] would naturally increase the number of persons eligible for assistance by a considerable, unpredictable amount. It would also increase considerably the amount of assistance to the present group of eligibles. The net effect would be a very marked increase in public expenditures in favor of groups whose need is least.

*"Pensions."* Flat grants to old-age assistance or aid to the blind recipients without means tests, or with test to the extent only that means can be determined through income-tax reports [have been proposed in various quarters].

Such proposals do not properly fall under the classification of

"assistance," since the primary principle of assistance is to meet need according to the extent that it is present to insure adequate living for each individual, but not to put a premium on age and disability. There are arguments undoubtedly which could be advanced both for and against such "pensions," but they do not properly belong in a discussion of "assistance."

### Variable grants

To the extent that low levels of assistance are caused by limited ability of the State to make payments, no significant increase in payments is likely in the absence of Federal action. [Similarly, to the extent that low payments are caused by the inability of localities in some States to pay a share of assistance costs, payments cannot be materially increased without equalization of funds within the State.]

**Variable grants to states.** The present basis of Federal participation does not recognize differences in the ability of States to finance public assistance, nor does it recognize differences growing out of greater incidence of poverty in the low-income States.

*Comparative fiscal ability among states.* Ability of a State to make assistance payments is dependent upon its resources. A State's income is largely determined by its tax receipts. However, tax receipts vary with the effort which a State makes to tax itself. Since the ability of a State to collect taxes depends in large part upon the income of its citizens, the total of individual incomes in the State is a more certain indication of ability than the taxes collected.

*Per capita income.* From 1929 to 1944 there have been great shifts in the general level of income payments, but the ranking of individual States within the range of per capita income payments has remained rather constant. Wide differences between States with high and low per capita income appear in every year.

Except in the war years, per capita income in the State with the highest per capita income has generally been at least five times as great as in the State with the lowest. Even in 1944, when the lowest State per capita income was \$528, the highest State per capita income was \$1,519, or nearly three times as much.

[In 1946 when the national average per capita income was approximately \$1,200 there were 4 States (California, District of Columbia, Nevada, and New York) in which the average exceeded the national average by at least 25 percent and 10 States in which the average fell below the national average by the same margin. In relative terms the lowest State per capita income—that in

Mississippi—was only about a third of the New York average and less than a third of that in Nevada.]

*Relation between per capita income and assistance payments.* The size of [assistance grants in the various States reflects] differences in the fiscal ability of the States. Only 1 of the 18 States above average in per capita income [based on 1941-43 average] made an average monthly [old-age assistance] payment [in December, 1944] greatly below the national average, while 9 were appreciably above that average. On the other hand, of the 31 States with incomes below the national average, only 6 had an average old-age assistance payment which was among the 10 lowest in the country, and only 1, New Mexico, exceeded the national average. These 10 States have 18 percent of the population of the United States yet in 1944 they received only 10 percent of all Federal funds granted for public assistance under the Social Security Act.

While State and local tax effort, whether for operating expenditures or public assistance, does not show a close State-by-State correlation with State per capita income, there is a clear tendency for the below average per capita income States to make greater, not less, effort. Even if all States were to make the same effort, however, the results would vary widely in terms of per capita amounts.

*Incidence of poverty.* Past experience indicates that the low-income States not only have relatively smaller resources but also must provide for a relatively larger number of needy persons. Recipient loads for aid to dependent children and old-age assistance show that the poorer States have a relatively greater number of needy persons and, as a rule, appear willing to recognize such need. Only 5 of the 18 States with above average per capita income [in June, 1945] had old-age assistance recipient loads above average, while 9 of the 31 States with below average per capita income had old-age assistance loads below average. A similar situation exists in aid to dependent children.

[The relationship between recipient rates for aid to dependent children and old-age assistance, on the one hand, and per capita income payments, on the other, is shown graphically for the various States on page 293 of the report. Further details are presented on pages 290 to 292.

[The proportion of aged persons receiving old-age assistance (in June, 1945) ranged from 517 per 1,000 in Oklahoma to 51 per 1,000 in the District of Columbia. The proportion of children under 18 receiving aid to dependent children ranged from 47 per 1,000 in Oklahoma to 7 per 1,000 in New Jersey. In aid to the blind, the rates ranged from 54 per 100 estimated blind population in Maine to 5 per 100 in Connecticut. \* \* \*

[In June, 1947 the incidence of old-age assistance and aid to dependent children in the States having the highest rates were about 11 times those in States having the lowest rates.]

*Reasons for variation.* Numerous circumstances account for the sharp State variations in the proportions of the particular population groups concerned receiving aid. States, of course, differ in the incidence of poverty. States differ not only in the extent of need, but also in the standards which they apply in determining need. Differences in State eligibility conditions also influence the number of recipients in relation to population. Citizenship is a condition of eligibility in some States but not in others.

In aid to dependent children, the definition of "incapacity" of a parent varies from State to State as does also the definition of a "continued absence from home."

In States which are highly industrialized, relatively more people are receiving retirement or survivors' benefits than in States with large numbers of agricultural workers who are not covered by the insurance program.

*Varying Federal participation to State ability.* The above evidence appears to indicate that although low per capita income States tend to exert comparatively great financial effort, needy persons in those States receive comparatively less assistance from both Federal and State sources than persons in States with high per capita income. The difference can be reduced by providing the low per capita income State with a greater proportion of its total assistance expenditure from Federal funds.

*Proposed equalization plan.* Several methods have been suggested by which Federal participation may be varied according to State financial ability. The method most frequently suggested for assistance programs provides for varying Federal participation from 50 to 75 percent of the total State assistance expenditure. The basis suggested for this variation is State per capita income, which is a quotient of income payments (which represents financial ability of the State) and population (which, roughly, represents differences in total assistance needs). According to this method, States with per capita income below the national average would receive "special aid" through raising Federal participation [to] 50 percent [plus] half the percent by which the State's per capita income falls below national average per capita income.

Under this method the 18 States with above average per capita income would receive \$1 for each dollar expended from State-local funds. The 31 States with below average per capita income would receive from \$1.08 to \$3 for each dollar expended from State-local funds. If Federal participation were not limited to 75 percent, one

State, according to 1941-43 per capita income, would by formula receive 78 percent Federal participation. In times of depression the relative range of per capita income among States is greater, and more States by formula, if not limited to 75 percent, would receive greater proportionate Federal participation.

While under the logic of this method States with above average per capita income should perhaps receive Federal matching proportionately below 50 percent, such action might tend to discourage program development in those States, with no advantage to the below average per capita income States.

\* \* \*

**Equitable distribution of funds within States.** Increase in Federal grants to States will not result in equitable treatment of needy individuals unless satisfactory methods are worked out for apportioning Federal and State funds among subdivisions within States. Whether or not a needy person receives aid often depends on whether he lives in one county or a few miles away in another. This problem is particularly acute in the States that now require localities to share in financing one or more of the special types of public assistance. In these States, localities usually receive Federal and State funds only as they are able to raise local funds to be matched.

*County differences in assistance payments.* Differences among localities in assistance payments are like those among States. More prosperous areas have large tax resources and proportionately fewer people to assist. Usually they make higher payments than are made in poor areas, where relatively more people are in need.

*County fiscal burdens.* Most local governments must rely on the property tax as their major source of revenue. Communities with low property values, therefore, have great difficulty in carrying their share of an adequate—or even an inadequate—assistance program. Fiscal ability tends to be low where need is great, and the poorer localities often bear a disproportionately large financial burden in paying their required share of assistance.

If public assistance is to be adequate in the poorer localities without a further drain on their overtaxed resources, some way must be devised to equalize the fiscal burden among counties. In financing education, the principle of granting more State aid to poorer localities is well established.

### Miscellaneous provisions

*Limitation of liens.* The Social Security Act does not require States to take liens on applicants' or recipients' property or to make

recovery for assistance paid to recipients; in fact, the act tends to reduce the incentive for such practices because it provides that if a State makes recoveries the Federal Government shall receive a pro rata share.

Approximately one-third of the States impose some type of lien provision or other device for securing the State's interest in a recipient's property for recovery of assistance paid to him. In some States a lien is imposed on all property of an applicant, both real and personal. In other States, liens are imposed on real property alone, or on personal property alone, sometimes on that part which is in excess of a specified amount. The effect of these practices is to condition or restrict the recipient in the use of his resources.

Consideration might be given, therefore, to a requirement that States' authority to take liens or to impose other controls be limited to real property and personal property other than cash and that it be limited to securing the agency's interest in that property for recovery, so as not to interfere with the recipient's use of that property. Moreover, the provisions in many State laws permitting States to enforce their claims only after the death of the recipient and surviving spouse or other dependent might well be made applicable for all States retaining recovery provisions.

*Federal participation in burial payments.* The Social Security Act does not provide for Federal matching in respect to payments of burial expense for deceased old-age assistance recipients. One old-age assistance recipient in 14 dies each year. If relatives or friends are unable to pay for the expenses of burial, this cost is borne variously by State or local units. If Federal matching were provided for the expenses of burial it would be expedient to establish matching on a payment-to-vendor basis.

## LOOKING AHEAD IN PUBLIC ASSISTANCE

G. E. Bigge, *Social Security Bulletin*, December, 1944.

**I**N RECENT MONTHS there has been much discussion of the need for improving social insurance, both unemployment insurance and insurance against other risks, but provisions for public assistance have received relatively little attention. While comprehensive and liberal insurance provisions would greatly decrease the need for public assistance, at present public assistance constitutes



the chief source of aid for needy persons. Even if the insurance programs are extended and improved, it will be some years before insurance equals or exceeds assistance in importance as a means of providing for old people or for the widows and children of workers who die. Moreover, since insurance benefits reflect the worker's past earnings and are fixed in relation to the average situation, there will always be exceptional cases in which public assistance is essential. It is important, therefore, to examine our public assistance program both as to philosophy and as to method to see whether it is adapted to the functions which the public will expect of it.

We are inclined to pride ourselves on the progress we have made in recent years in the public assistance program in getting away from the old poor-law concepts of relief giving. We refer to the "means test," in the form in which it was—and still is—administered under the poor laws, as something quite abhorrent. We like to think that "assistance" is now provided to needy persons as a matter of right, without any tinge of pauperism. Under the Social Security Act, payments must be made in cash; no more relief in kind with its humiliations and its abuses! No longer does the welfare worker attempt to tell the recipient where he shall live, what he shall eat, and wherewith he shall be clothed. The payments must be "nonrestrictive"; once the amount of the recipient's payment is determined, he must be left free to use it just as any other citizen of the community uses his income.

Undoubtedly these changes represent, in principle at least, a great achievement. But how far is this philosophy reflected in the detailed regulations and procedures, and methods of operation? To what extent have we relieved the applicant or recipient of assistance—and members of his family—from the humiliations and irritations of "poor-law" procedures? What do we mean when we say public assistance is based on right, and are we sure that this right is understood, and recognized? If not, what do we need to do to make it effective?

### Whose right to assistance?

Let us ask ourselves first, who enjoys this right? Apparently not everyone. The first and most obvious reason is that we are dealing here only with persons who are found, on investigation, to be in need; they have a right to look to the community for assistance to meet their need. But the agency's definition of need will frequently—and necessarily—be much more restrictive than that of the individuals concerned. Also, if need is determined for each individual by visitors who make independent judgments concern-

ing what different individuals need, the amounts granted will vary considerably. Yet presumably all applicants have the same rights.

And apparently not all persons who are found to be in need have such a right to assistance. So far as the Federal Government is concerned, funds are available only for certain groups of needy persons—the blind, the aged, and children whose parent is dead or incapacitated or absent. For a time the Federal Government furnished funds for work relief for able-bodied needy persons, but it does not now. In most States the concept of assistance is somewhat broader than that of the Social Security Act, but in many cases the local community alone must care for needy persons who are not in the specified categories; and since local funds are often not available, such people may receive little or no help. The right to assistance in these communities is thus limited to certain groups. For the remainder, the poor-law concept is still in effect.

To see what this limitation means, we have only to compare the treatment accorded these special categories with that available for persons who are not in the favored groups. In 1943, according to the best figures available, two States spent 70 times as much for aid to the aged as they did for needy persons under 65 who had to rely on *general* relief or assistance. Of course, we ordinarily think that people under 65 should be able to look after themselves when plenty of jobs are available. But there are always several millions of persons in the United States who are partially or totally unable to work for longer or shorter periods of time, and in such States these persons get very little attention. If we look at the State which had the largest per capita expenditures for general assistance in 1943, we find that it spent almost as much on general assistance as on old-age assistance, rather than one-seventieth as much, as in the States mentioned above. Probably the relative need of these groups is not greatly different in the several States. Yet in the one State, people under 65 have about the same right to public assistance as those over 65, whereas in the others, the needy persons under 65 are almost completely ignored. They get not even poor relief.

### The right to what?

Even within the favored groups it is often difficult to see much evidence of a "right" to assistance. To what do the aged and the dependent children have a right? Ordinarily, established rights are clearly defined; the individual knows what his right is. But in public assistance, the right is qualified in so many ways, by so many different factors, that the individual can have no clear idea of what he is really entitled to. In many cases the best that can be said

is that every applicant has a right to consideration and to equitable treatment.

And the right to equitable treatment may be further qualified in many States where assistance funds are so limited that it is impossible to meet even the minimum needs of all who are eligible. Of course, funds will always be limited as compared with the amounts that *could* be used for this purpose, but in some cases the limitation is so serious that it largely nullifies the presumed right to assistance. In order to meet the situation the administrative agency is forced to do one of three things.

First, it may lower the estimate of the amount required for subsistence. But when we compare the amounts allowed in public assistance with a subsistence budget determined for other purposes, it appears that in most cases these basic requirements cannot be reduced.

The second alternative is to put on the rolls only as many as can be given the payment determined to be necessary in each case. This results in waiting lists of persons who, though eligible, cannot get assistance because the funds have been obligated for those who got there first. Presumably, if investigation reveals that some of these new applicants are in greater need than some already on the rolls, the most needy will be given preference. But this is no solution. It will mean, for example, that two persons who need and have been getting \$20 a month each, must, without any change in their circumstances, be taken off the rolls in order to put on a new applicant who needs \$40 a month. At best such a policy results in meeting only the greatest need and ignoring the rest, though one person's need for \$20 may be just as acute as another's need for \$40. At worst the result is to set up a list of preferred claimants whose needs, as determined, are met in full, while all others are placed on the waiting list and get no assistance. At times during the last few years some States have had as many people on waiting lists as were actually receiving assistance. To those on the waiting lists certainly the right to assistance means little or nothing.

The third alternative is to reduce all payments in accordance with the lack of funds. This can be accomplished, as mentioned before, by readjusting the basic allowance, but aside from being extremely cumbersome this method is rather unrealistic, since the allowance is frequently very low already and there has been no change in the need. So the adjustment is usually made by paying only a specified proportion of the amount the agency finds needed by the individual. In recent years some State agencies have regularly paid only a portion, in some cases as little as half, of the actual budgeted need. According to recent surveys, more than 50

percent of all the payments in aid to dependent children have been in amounts less than the established need. Only two States met need, as determined, for 90 percent or more of the families aided. In one State, it has been standard practice until recently to deny aid to dependent children in any family which had resources equal to 30 percent of its need. How significant is the "right" to assistance payments in such a case?

The only recourse for persons who think they are being unjustly treated is to appeal the agency's decision. Every State has set up procedures for hearing such appeals—this is one of the requirements of the Federal act. It is doubtful, however, that all who feel themselves aggrieved are aware of their right to appeal; or if aware, whether they know how to go about it to get a reconsideration. And even if we assume that an appeal is taken, what is the agency to do? If it appears that the decision was unwarranted, it may be reversed and the applicant may be put on the rolls. But if the situation was due to lack of funds, someone else must be taken off or must receive less.

### Determining need

In setting the amount of the assistance payment, another type of difficulty arises which may be equally serious because it goes to the heart of the present procedures and affects a large proportion of all recipients and members of their families. The amount of the payment is related to the need of the individual; that is basic to our conception of public assistance. This assistance is not a flat payment to all persons in a specified group—although the provisions of a few State laws tend in that direction. Public assistance is designed to meet individual need and therefore the need must be determined in each case. The Social Security Act limits the amount which the Federal Government will share equally to \$40 a month for the aged and the blind and even less for dependent children, and most State laws fix similar limits for individual payments.

But these amounts are commonly only maximums; the actual amount is determined by considering the requirements of each individual, and the resources available to meet these requirements. This balancing of requirements and resources is usually accomplished by preparing a budget for every applicant. Here is where the difficulty arises. While it is essential that each individual's need be determined, it appears that in the application of this budgeting procedure—in connection with requirements as well as resources—an agency's practice is likely to come into conflict with the basic

objective of making public assistance a right, as distinct from a relief program, and of doing away with the odious household means test.

### The applicant's requirements

To see what happens, let's look first at the requirements side of the determination. Since funds are limited, obviously the individual cannot be allowed to determine for himself how much he shall receive; this is the function of the agency. Although a budget is made for each individual, and although the payment granted is an over-all amount, *no* part of which is required to be spent for any specified purpose, in the last analysis it is the agency rather than the individual who decides *which* wants shall be taken into account in fixing the amount of the payment and how much shall be allowed for the several items. And since the representative of the agency which approves the grant refuses to put certain items into the budget and limits the amount for other items, the recipient may be pardoned if he gets the impression that the payment is intended to cover expenditures represented by the "approved" budget. When the recipient feels himself so entirely dependent on the discretion of the visitor, it is doubtful whether he is conscious of that freedom of choice which public assistance, granted as a right, is supposed to give him.

The situation is aggravated by the fact that the vast majority of payments in all but a few States are below the amount specified in the State law as the maximum which may be paid to an individual. This maximum is the only amount mentioned in the law, and an applicant easily gets the idea that this is the amount for which the agency's visitor may find him eligible. Furthermore, the circumstances of most applicants are such that what appear to them perfectly reasonable requirements would easily equal or exceed the amount specified. If, then, after extended discussion, in the course of which it is indicated what may be included in the budget and what may not, and how much may be allowed for certain items, the amount granted is well below the maximum, the applicant almost inevitably feels that, whether it is intended or not, the budget technique, and indeed the whole investigation procedure, is a device for giving him less than the law allows. The fact that he may spend the limited amount as he sees fit will probably be less important in his mind than the fact that in arriving at that amount the agency refused to recognize wants which seemed to him important, and the recognition of which would have brought his payment up to the amount specified in the law.

To say this is not to ignore or to understate the value of the budget technique in determining the amount necessary for a given plane of living and in estimating the additional amounts necessary to meet needs in special cases. It is intended only to point out the dilemma with which we are confronted in administering public assistance according to these new concepts. To protect the individual's right to live as others do, we emphasize the unrestricted grant and the cash payment. But in determining the amount of the payment—except as this may be specified in the law—the agency will necessarily exercise its own judgment as to how far an individual's wants shall be recognized. Although the payment is not "restricted" to the recognized purposes, the agency's decision on this matter determines the amount of money the individual gets.

The recipient, therefore, is faced with the often unhappy choice of conforming his living to what seems reasonable to the agency, or of giving up what all will concede to be essential in order to satisfy his desire for what seems to him equally important. Of course it is inevitable that there should be such a balancing of wants. It occurs in the expenditure of any limited income. But it is unfortunate that, by using the individual budget in every case, the agency should appear to be establishing an "approved" pattern of expenditures, when in fact all it is doing is determining an over-all amount which the individual may spend as he chooses.

### What anybody needs

Perhaps if we recognize this fixing of an over-all amount as the basic function of public assistance and build upon it, we shall find at least a partial solution of our dilemma. If the purpose of public assistance is, fundamentally, to give the recipient a sum of money which he may use as he sees fit in meeting his need, then presumably we shall *begin* by determining not what is necessary to meet the need of a particular individual according to his own peculiar circumstances, but what is necessary for an *ordinary* individual, for the "average" individual, at a particular time and place. A determination of particular requirements would then be necessary only for those who wish to establish their claim to more than the ordinary needs.

This procedure would be entirely in harmony with the objectives of a good social security program. If a comprehensive social insurance program covering all gainfully employed persons were in full operation, the vast majority of individuals who become old or disabled, and the survivors of those who die, would draw in-

surance benefits. These benefits would not be related to the peculiar needs of the individual; they would presumably be so adjusted that the usual benefit would meet the major needs of the ordinary, average individual. They would reflect the responsibility which the community has undertaken for any person in similar circumstances. Public assistance would be used only in exceptional cases. When our social insurance program began, a large part of the population was excluded from coverage. Its social insurance benefits, moreover, could never be available to persons who had already become old or disabled or had lost their means of support through death of the family breadwinner. It therefore has been necessary to use public assistance alone to meet the needs of such persons. But there is no reason why the *amount* of the assistance payment could not be fixed in a way similar to that used in determining the range of insurance benefits—on the basis of the usual needs of the average individual. Detailed investigation would then be necessary only in unusual cases.

To refer to the "average" individual is to invite the wrath of those who insist that there is no average person, that each person is a different individual, and that the purpose of modern assistance is to protect the recipient's individuality. This point is wholly valid within limits. However, so long as only a limited amount of money can be given, the recipient's individuality and independence will probably be much better protected if he is assured a minimum income, not as a *particular* individual but as *any* individual—this minimum to be his without any questions asked—than if the amount is determined only after a detailed discussion of what may or may not be considered in fixing the amount of his particular payment. The measure of the individual's independence will depend in the main on the adequacy of this guaranteed minimum to meet his needs. If the amount is woefully inadequate in most cases, then public assistance means relatively little more than "poor relief." All will feel it necessary to discuss their own special needs in the hope of getting more money. But if the assured minimum—including, of course, the individual's own resources—is reasonably adequate, then it is clear that the large majority of recipients will be able to meet their needs in their own way without having to discuss the purpose for which aid is given or the way in which their income may be spent.

A public assistance worker recently cited a case which illustrates this point. The worker had prepared a budget for an old woman who had long been in need. In the preparation of the budget, a small amount was included for church and other similar purposes, and a few small items for personal needs. The applicant was over-

joyed to think that she would now have a few pennies to use for these purposes, as other people had. When the budget was completed, it amounted to some 40-odd dollars. Then, because of limited funds, the actual grant was \$20, barely enough for rent and essential food.

The applicant was dumbfounded to find that the amount finally allowed made absolutely no provision—from her point of view—for all of the little items, such as church donations, that had been discussed. It is doubtful that anyone could convince that woman that public assistance is a *right* in the sense in which we like to use the term. Wouldn't it have been better if she had been assured a minimum income—whatever the available funds made possible—without discussing all the little items which should appear in a reasonable budget, but for which the grant could make no provision whatever?

### The applicant's resources

If we look at the other side of the problem, evaluation of the individual's own resources, similar difficulties appear. It is obviously necessary, if public funds are to be used for an individual's support, to take that person's own resources into account. Few would think of paying assistance to persons who are regularly employed or who have "adequate" income from other sources. But beyond that point, the issue becomes confused and various questions arise.

The question whether a specified amount of income should be exempt from consideration, which has received so much attention in recent years, is really of minor importance. In the main, the answer depends on whether or not we will have sufficient public funds to care for persons who are really destitute, if some of the funds are used to help those who have substantial income of their own. In practice a much more important question is what shall be considered as income for the applicant?

In this area we run into some of the worst features of the "means test." The objection to the means test is not so much that it requires taking account of an individual's own income in determining the amount of assistance he will get; the chief objection is that in practice the means test is applied not only to the applicant, but to other, self-supporting members of the household or family in which the applicant lives. This problem persists in the administration of public assistance for all applicants who live with others and, so far as I know, no entirely satisfactory procedure has been developed.



### Relatives' responsibility

Consider, for example, the case of a woman who has been living with her son's family for some years. When she reaches age 65 and applies for public assistance, will she be eligible? Or will the agency feel that since she will continue to live with her son as she has in the past, she has adequate income and is not entitled to public assistance? Suppose the son says he has helped her in the past because there was no alternative. She had no income, and public assistance was not then available, so he had to care for her. But now, since she has reached 65, he feels that she has a right to public assistance and should receive it so he can use his income for his own children. If payment is refused, as it will be under many laws, what becomes of the mother's right to assistance? Or if the agency attempts to provide for her by requiring the son to support her, what becomes of *his* right to dispose of his own *earned* income as he wishes?

Or take the case of an unmarried son living with his widowed mother who has her home but no other income. He wants to save his money to get a start in the world and thinks his mother should get public assistance. He sees the neighbor, whose son is away working his way through school, getting assistance—why not *his* mother? Hasn't she a "right" to assistance? If she applies, will she be eligible, or will he be expected to support her, in whole or in part?

If the agency insists on considering his earnings as the *family* income, or *requires* him to contribute more than the cost of room and board, again the means test appears in its most objectionable form. Under some procedures the agency, in determining the amount which the son can be expected to contribute, undertakes to specify the other purposes for which he may use his earnings. Is such procedure compatible with the idea of public assistance as a right? Are we not denying the mother's right to assistance by applying the "means test" to her son? If funds are inadequate, of course, there may be no better alternative, but in such a situation can we say that public assistance is regarded as a right?

Such action is often defended on the grounds that a son *should* support his mother; it is good for him and good for her to maintain this relationship. Public assistance, it is contended, should not destroy family responsibility. But is it at all certain that enforcing such a policy will promote good family relations? Isn't it possible that a little more independence on the part of both mother and son would be better for both of them and would promote better relations? Isn't it true, as Mr. Bevan said in the English Parliament

recently in debating this very question, that by applying the means test in this way we are making it profitable for boys to leave home?

But we sometimes go even farther. Some State laws require specified relatives to support the applicant if they are able to do so, even though they are not members of the same household, and the public assistance agency is required, or at least expected, to enforce this "relatives' responsibility" for persons who receive assistance. Is it the proper function of a public assistance agency to enforce such a policy? The agency's primary function is to determine the amount of money needed by the applicant in order to meet some specified standard of welfare. If resources are not available—even though according to law they should have been provided by relatives—the agency must presumably find the applicant in need. It would seem that the problem of enforcing the provisions regarding relatives' responsibility, if these are retained, would better be handled by some community agency whose function it is to enforce such obligations imposed on individuals, rather than by an assistance agency.

The policies followed by State agencies in this respect vary widely. In some instances, if an individual has relatives who are legally responsible for his support, assistance is denied on the assumption that support will be provided, without regard for the cases in which the relatives actually make no provision or give much less than the agency would otherwise have provided. In other instances the agency may attempt to secure agreement by responsible relatives to make certain contributions and adjust its public assistance payment accordingly. In still other instances, the agency accepts full responsibility for seeing that contributions are made.

In any of these situations, however, the State rejects at least in part the responsibility which it has presumably accepted under the public assistance law. Even if the agency does see that the necessary contributions are made by the relatives, is this support any better than charity? While no one will deny or belittle the value of family solidarity and responsibility and mutual assistance, it is doubtful that the benefits of such family feeling can be secured by compulsion. To deny assistance to an otherwise eligible individual because some relative is "responsible" for his support, when in fact the support is not provided, is to nullify the concept of right on the part of the applicant.

### **Realizing public assistance objectives**

In pointing out these flaws in public assistance, there is no intention to underestimate its achievements. Undoubtedly we have

made tremendous progress in both the conception and the administration of a program designed to meet the need of important groups in the community in a way that protects their self-respect and human dignity. The purpose of this discussion is to call attention to certain further steps which are necessary if we are to realize in practical operations the objectives we have set for this program. In conclusion these steps may be stated about as follows:

In the first place the law should guarantee a minimum income—as a few laws do—including the public assistance payment and the individual's own resources, so that an applicant would know that he can depend on this much at least. It is impossible to say just what that minimum should be; that would be for each State to determine according to its own circumstances. And the amount may not be uniform throughout the State. For example it may be adjusted to take account of differences in the cost of living in various regions, large cities as against rural communities, and for differences in the living arrangements of different groups. The minimum for persons living alone might differ, for example, from those for persons who live with husband or wife or in a larger family group. But unless the law puts some substance into the concept of right, that concept is quite ethereal. Some States already provide such a minimum, but in too many only the maximum is specified, and actual payments are so much less than the maximum in most cases that the individual has little idea of what he may really expect. As long as only the maximum is specified in the law, and actual payments are substantially less, the recipient will regard the investigation and budgeting procedure, not as a means of *meeting* his own particular need, but as a device for paying him *less* than the amount mentioned in the law.

If the law assured a minimum over-all income, it would be possible to dispense with any detailed budgeting or investigation of the requirements in all cases where the individual had only the usual needs that were taken into account in fixing the standard amount. In such cases, it would be necessary only to determine the other resources actually available to the applicant. Detailed budgeting would be necessary only in those cases where the applicant claimed a need greater than the ordinary. This greater need might be due to any circumstance which was not taken into account in fixing the standard allowance. To assure equitable treatment, money would need to be available to meet such additional, extraordinary needs. Now the reverse is true in too many States. Needs are carefully budgeted only up to a specified maximum—or if additional needs are recognized at all in the budget, they are not met in most cases because of the maximum. Not much is gained

by working out a budget of \$30 in one case, and in another, because of special need, a budget of \$75, if \$30 will be paid in both cases.

On the resources side, too, the investigation would be greatly simplified if we recognize, fully, the applicant's right to public assistance in all cases in which his own income and resources are below the specified level. Since the objective of public assistance is to provide reasonable security of income for the person concerned, we should take into account only such income as is reasonably assured. Ordinarily this is not difficult to estimate. If relatives do make contributions for the applicant's support, the amount would be taken into account, as would income from any other source. These amounts, too, are not difficult to determine. If we eliminate the time-consuming and frequently annoying procedure of applying the household means test and the detailed investigation of relatives' ability and responsibility to support, the determination of resources would be relatively easy. And certainly such a step would avoid much of the criticism of public assistance investigations and would help greatly to maintain the dignity and self-respect of the recipient and his family.

The adoption of such a plan would mean, of course, that enough money must be provided so that there would be no waiting lists and no payments less than actual budgeted need or less than the minimum. The cost would be somewhat more than the present program in many States, but probably we can't have real security for the needy people among us, real freedom from want, without spending a little more money for that purpose. Some States might have difficulty raising the funds to do the job adequately—although it is by no means always the State with limited resources which has provisions such as relatives' responsibility. It is to help the States which really need financial aid in this respect that the Board has recommended varying Federal participation in accordance with the State's economic capacity. With such help, and with the protection afforded by an expanded social insurance program, it should be possible in this country to carry out an assistance program which would assure everyone an income sufficient to meet basic need without infringing on the self-respect and independence of either the needy individuals or the members of their families.

## *PUBLIC WELFARE OBJECTIVES*

Public Welfare Association, "Objectives for Public Welfare Legislation, 1947," *Public Welfare*, April, 1947.

IN 1945 the American Public Welfare Association formally adopted a twelve point platform of policy objectives. This platform was the result of a ten-year accumulation of experience under the Social Security Act. It reflected the growing conviction of those carrying out the public welfare function that needed changes could no longer be approached piecemeal but must be formulated and presented in the context of a comprehensive program. It reflected a definite shift of thinking away from the concept of public welfare as a series of independent programs grouped together fortuitously for administrative convenience and toward acceptance of its role as one of the basic areas of governmental service in which the parts are at once interdependent, complementary, and bound together by common underlying philosophy, professional content, and purpose.

After a year's further experience and discussion of the platform the Committee finds itself still in agreement on the fundamental objectives therein put forward. The experience of last year in which this platform was reflected in a specific legislative proposal, Congressional hearings held, and Social Security amendments adopted for a temporary increase in the federal assistance contribution and a permanent increase in the child welfare authorization resulted in a far wider and more pointed debate regarding its intent and its value than would otherwise have been the case, especially among those outside the APWA itself. This lively discussion regarding trends and goals in public welfare by leaders and officials at all levels of government, by church, labor, women's, social work, and other organizations and within the legislative bodies has not only been stimulated in considerable measure by the existence of the public welfare platform and its legislative counterpart but has, in turn, subjected them to the hard test of widespread scrutiny.

In reviewing this experience the Committee feels the platform should be again presented, with minor modifications of wording and arrangement but with its essential provisions unchanged, as a statement of Association policy objectives in the area of federal legislation. The fact that the temporary increase in federal assist-

ance grants to the states expires on December 31, 1947 makes it essential that these issues be reexamined by those interested in public welfare, including the appropriate Congressional Committees.

The twelve points of the platform deal with particular problems and inadequacies but taken as a whole they reflect a clear-cut trend toward the evolution of public welfare as a comprehensive and integrated function of the federal, state, and local governments. It is a trend determined by these four basic assumptions:

### **First**

Public welfare represents a basic assurance of minimum standards of human existence, established through the cooperative action of federal, state, and local governments to assist individuals unable to meet their own needs, in whole or in part, because of physical incapacity, loss of breadwinner, or social and economic conditions, and to provide protection for the helpless. Such assurance is effective only to the extent that its benefits are available to all without exclusion because of legalistic eligibility requirements, categorical restrictions, geographical financial inequalities, or any other cause.

### **Second**

Public welfare has a primary role in those situations in which need for social service not otherwise available is paramount but many of its functions, including assistance, are residual in the sense that they supplement, underpin, facilitate, or demonstrate the need and prepare the way for other primary governmental measures to assure security and social well-being.

### **Third**

Public welfare must meet each situation on an individual basis but should do so in terms which assure equitable treatment to persons in similar circumstances.

### **Fourth**

Public welfare is a comprehensive function in which various forms of economic aid and social services are so closely related that only through unified administration at all levels of government can consistent policy be achieved.

Since these four principles clearly spell out the evolutionary

trend of public welfare toward comprehensive policy and service it is inevitable that the Association's twelve specific recommendations for action are directed in the first instance to the federal government. This does not imply an abdication of responsibility on the part of state and local officials but rather a recognition of the inescapable fact that a policy of comprehensive responsibility can only be made completely effective through leadership and action on the part of the most comprehensive common agent, the government having jurisdiction over the entire area, the whole population and the authority to deal with all units of administration. At the same time the Committee feels that state action should not be delayed in the expectation of an expanded federal program but should move as rapidly and as completely toward the desired objectives as circumstances permit.

The twelve point platform of the Association assumes a continuation and expansion of the present federal-state partnership in the field of public welfare through a system of federal grants to the states contingent upon the states' meeting certain stipulated federal requirements. The platform recommends that the scope of federal financial aid be expanded to permit in fact a comprehensive and equitable program and that the states, in return, be required to meet certain basic requirements looking to comprehensive and equitable service. Through its recommendations for expanded federal financial aid in the first seven points of the platform and its recommendations for additional requirements on the states in the next four points the Association undertakes to combine the desirable features of a common national program, supported by the broad base of total national resources, with the traditional and still essential values of administration vested in the state and local governments. Each of the points of the platform is presented with a brief explanatory statement in the following paragraphs:

#### Point No. 1

*That the Federal Government recognize the comprehensive nature of public welfare responsibility by aiding the states in providing financial assistance and service not only for the aged, the blind, and dependent children, but all needy persons.* This is the most basic of all the recommendations since it looks to a comprehensive acceptance of responsibility on the part of the federal government to assist the states in placing a floor under need whatever its cause. The Committee recognizes that many states will wish to retain the categorical concept as an administrative device and

feels that they should have complete freedom to do so. Moreover it wishes to emphasize that particular groups have special needs which must be recognized and met in any assistance program. It does not feel, however, that federal aid should be limited to certain categories of needy persons since this tends either toward the creation of a virtual caste system in assistance or worse yet to the actual exclusion from assistance of substantial numbers of those in need, thus defeating its very purpose, assurance against want.

This recommendation also reflects an acceptance of the residual role of assistance. As more and more people are protected against loss of income through such measures as social insurance and benefit by general measures tending to prevent or minimize poverty, the basic residual role of assistance becomes more evident. It is the ultimate answer to the needs of people whose particular situation does not fit the impersonality of the insurances. While its numerical coverage should ultimately be small, its ability to meet any situation on an individual basis should not be limited by arbitrary legal or financial restrictions. A comprehensive but limited role for public assistance is fundamental to the whole social security approach to the problem of need.

## Point No. 2

*That the Federal Government recognize the expanding preventive role of service functions in a total public welfare program by sharing in the financing of such services as a part of a comprehensive state welfare plan.* Increasingly, public welfare workers and the community at large are coming to recognize that the public welfare function is a dual one in which the rendering of service plays a role closely related to the relief of economic need. Moreover, the sharply rising financial burden of meeting needs caused by dependency, preventable illness, delinquency and similar conditions emphasizes the long-run economy of an early investment of public funds in the preventive social services which help individuals and families meet their own problems. The experience of the war years in which the public welfare departments were called upon to render a variety of services to facilitate or ease the nearly universal processes of readjustment served to emphasize the need for social services already recognized by the federal government to a limited degree in the child welfare program and in the social service incidental to assistance administration. The need for services may be expected to increase when an expanded and mature system of social insurance relieves welfare departments of the necessity to provide for so many needy persons through assistance machinery.



Not only will the welfare agencies be freed from much of the pressure which they now feel in the administration of assistance, but by the same process the need for a place to which any citizen may turn in full dignity and self-respect for reliable advice, information, and aid will be increased by the very impersonality which is one of the inherent advantages of social insurance. The need for an expanded and universally available child welfare program has been clearly demonstrated by the ten years of experience under the limited provisions of title V of the Social Security Act and the Committee is of the opinion that such services should form a major part of an integrated public welfare program.

No sharp distinction is made in the Committee's thinking between "services," by which it means personal services rendered by professional workers and "assistance" by which it means financial aid to those who need it. Both are considered to be manifestations of a unified public welfare function and it is felt that a maximum degree of administrative flexibility should be achieved in order to permit service and financial aid to supplement, underpin, and implement each other. On the other hand the Committee feels that social service must be recognized as a welfare function in its own right, serving needs not necessarily economic in character, and should therefore not be subordinated to assistance or treated as a part of the cost of its administration. Federal financial aid should be available to both on a comparable basis as part of a comprehensive welfare plan.

### Point No. 3

*That the Federal Government bear a larger share of the welfare costs in low income states through an equalization grant formula provided by law and applicable to assistance, welfare services (including child welfare services), and administrative expense.* This recommendation for a federal equalization grant is based on recognition of the fact that the well-being of the country as a whole can only be assured if the federal government uses its broad legislative and taxing powers to minimize geographic economic inequalities. This becomes particularly important in view of the highly mobile character of our population and the fact that the states with the lowest average per capita income have the highest birth rate, hence a disproportionate share of the cost of rearing the nation's oncoming generation. The present even-matching formula places the least federal aid, in actual dollars, in the states where the need is greatest despite the fact that these states often make the greatest fiscal effort in proportion to their total aggregate income. This disparity

in federal aid would be aggravated if the maximum limits on assistance payments to individuals were lifted as recommended in Point No. 4 without an accompanying provision for equalization. The equalization grant proposal is also closely related to Point No. 9 since effective abolition of residence requirements presupposes measures looking toward an equalization of assistance standards throughout the country. It is to the national as well as local interest that inequalities in the level of public benefits and services should not become a factor in influencing immigration.

The Committee feels also that the equalization grant formula should be fixed by law and should be applicable to all federal grants to the states in the public welfare field including those for welfare services and administration as well as assistance. This reflects the conviction, based on eleven years of experience, that the most satisfactory federal-state partnership is achieved when the conditions and amount of the federal grant are clearly stipulated by law leaving the primary administrative responsibility to the states. While the discretionary federal grant has undoubtedly served a useful purpose in the demonstration period of the child welfare program the Committee feels that the best development in the field of welfare services can now be achieved if an objective standard of federal aid is fixed by law. Not only do the same considerations of using federal financial aid to provide equitable service despite regional economic inequalities obtain in the case of services and administration but there are obvious administrative advantages and economies in reimbursing all eligible state activities on the same formula basis. Of primary interest to administrators is the desire to achieve the flexibility of a comprehensive program in which the various parts are not artificially segregated by differentiated legal, financial, or administrative requirements.

#### Point No. 4

*That no maximum limitation on federal participation in payments to individuals be fixed by the Federal Government, determination of appropriate standards of assistance being left to the states.* This proposal to eliminate ceilings in the federal share in payments to individuals is consistent with the basic principle in the administration of assistance that the primary responsibility rests with the states. It is inconsistent to place the responsibility for determining levels of assistance on the states and then hold the federal share to an arbitrary maximum. It is, moreover, inconsistent with the basic role of assistance, namely, to meet the unusual situation on an individual basis in order to provide an ultimate guar-

antee against want. In a purely practical sense the lifting of ceilings is to the higher income states what variable grants are to the lower income states, a means of providing a measure of federal financial participation commensurate with their needs and their effort to meet these needs.

#### Point No. 5

*That states be permitted to make direct payment to individuals, institutions, and agencies furnishing authorized medical care to assistance recipients and other needy persons.* The problem of medical care does not, in many cases, lend itself to satisfactory solution through cash payment to the recipient based on the budgetary process. Moreover as health departments increasingly move into the area of medical care and the insurance approach to meeting medical needs develops, many welfare departments would welcome the opportunity to make contractual arrangements with the health department to furnish medical care to assistance recipients or to purchase insurance coverage for them. The Committee, therefore, favors liberalizing the federal law in order to permit more flexible arrangements in the furnishing of such medical care provisions as are included in the assistance program.

#### Point No. 6

*That the Federal Government participate financially in the cost of providing foster care to needy children under the supervision of the state.* A comprehensive welfare program must make provision for those children who are deprived of parental supervision, protection, and support through death, illness, desertion, court order for removal from an unsuitable home, or other reasons. This protective responsibility toward children is, in fact, one of the oldest and most basic public welfare responsibilities but it is one which is being most inadequately and unevenly met because of the absence of federal financial aid. The general compelling need for federal equalizing assistance is actually greater in this field because of the higher birthrate in the states where financial resources are most limited. There is, moreover, a serious inequity in the fact that federal financial aid is now available to a needy child living with a parent or other close relative but denied to the child whose lack of such familial home makes his need even greater. The provision of foster home care for children who need it is another area where an early investment of public funds will pay the highest dividends in reducing the staggering cost of delinquency, mental illness, chronic de-

pendency, and other products of childhood neglect. The fact that in many sections of the country religious and other voluntary groups provide care for some of these children in no way relieves the public agency of its residual responsibility to assure protection and financial aid to those whose needs are unmet. Conversely there need be no fear that the obligation of public welfare to provide such protection on a comprehensive residual basis implies an arrogation of monopoly in the field. The study of foster care now being undertaken by the Association's Committee on Services to Children should help to classify the relationship of public responsibility and voluntary effort in this field to the end that public funds for foster care may be used to serve the best interest of all.

#### Point No. 7

*That states be permitted, if they so desire, to extend cash assistance to needy adults who, because of their need for medical care, voluntarily choose to reside in public hospitals, infirmaries, convalescent homes or institutions for the chronically ill (except institutions for mental disease or tuberculosis) provided that where this is done there must be a state authority to establish and maintain standards for such institutions.* The Committee, after extended debate, a special staff study, and intensive work by a subcommittee designated for the purpose, came to the conclusion that the prohibition in the present Social Security Act making assistance payments to residents of public institutions worked an undue hardship on otherwise eligible individuals who, if permitted, would wish to live in public institutions because of their need for medical care. The high incidence of chronic illness among the aged makes this a particularly acute problem for this group. The problem has been aggravated in recent years by the difficulties of securing boarding home care for persons requiring nursing service and by the fact that in most parts of the country private institutional facilities are over-taxed. On the other hand the Committee is of the opinion that this liberalization of eligibility for cash assistance should be limited to those requiring medical care and that the public institutions in which they might reside should not only be limited to certain specified types of medical institutions but should be required to meet standards established and maintained by state authority. It is felt that these restrictions would preclude the use of assistance funds to re-establish the almshouse type of care which the assistance program was designed to supersede.

**Point No. 8**

*That such financial participation by the state and such distribution of funds within the state be required as to assure equitable treatment to individuals in similar circumstances throughout the state in terms of standards established by the state.* This recommendation is based on a recognition of four obligations which the assumption of a larger share of financial responsibility by the Federal Government in the interest of a comprehensive program assuring equitable treatment would place on the states. First it is recognized that advocacy of the equalization principle in federal-state relationships places an obligation on the states to apply the same principle in their state-locality relationships. In the second place this recommendation continues the trend already evidenced in many states to place the power to determine budgetary standards at the state level. This is not only the simplest approach to financial equalization but is the only way to avoid inequities in standards of assistance within the states which are not based on actual differences in living costs and conditions. In the third place it reflects a desire to support and strengthen the budgetary process by requiring that need either be met in full or be met equitably throughout the state. And finally this recommendation assumes that the principle of equitable treatment imposes an obligation upon the state to act promptly upon any application for assistance in order that all persons in similar circumstances, regardless of the order of their application for assistance, may receive aid in accordance with their need.

**Point No. 9**

*That the Federal Government participate financially only in those assistance and other welfare programs which are available to all persons within the state who are otherwise eligible without regard to residence, settlement or citizenship requirements.* Again the Committee recognizes the obligation which comprehensive federal financial aid places on the states to eliminate arbitrary barriers in their own state or local law which stand in the way of extending assistance or welfare services to all those within their state who require them. It recognizes on the one hand the reality, and in fact the desirability, of a high degree of mobility in our national population and on the other hand the impossibility of meeting the needs of nonresidents outside the main stream of our state and local welfare machinery. It was for this latter reason that the alternative recommendation for a complete acceptance of federal financial

responsibility for people with less than one year's residence was considered unacceptable. The Committee feels that the Federal Government could not accept 100 percent financial responsibility for any group without undermining the primary objective of a comprehensive unified program assuring ultimate security to all people regardless of arbitrary circumstances. On the other hand it is recognized that the mandatory obligation of states should not extend to persons actually residing in another state.

#### Point No. 10

*That states be required to grant federally aided assistance only on the basis of need without exemption of income from any source in determining eligibility or the amount of the grant.* The residual character of the assistance function necessitates an individualized approach to need not only to assure the flexibility required to meet unusual situations but, of even greater importance, to protect the primary role of the insurance programs. The widespread support for an outright pension or for a modified pension through exemption of income in the payment of assistance reflects confusion over the respective roles of insurance and assistance. Insurance is a means of preventing dependency by giving to covered individuals an equity, through contributions made by themselves or in their behalf, in an insurance fund which entitles them to payments fixed by law when certain conditions exist. Ultimately it is hoped that most of the aged, disabled survivors of wage earners who meet premature death, and the temporarily unemployed may have their basic economic needs met by social insurance payments which involve no investigation of need or resources whatsoever. This, however, will only be possible so long as the role of assistance remains that of meeting the unusual situation on an individual residual basis. Should assistance take on the character of a pension, a fixed payment made available to certain groups regardless of need, it would be virtually impossible to maintain support for a contributory insurance system. It is also questionable whether the public is prepared to assume, on a general tax basis, the enormous financial burden such a program would entail. The Committee likewise feels that the essential function of assistance is not compatible with the various proposals put forward to exempt from the computation of assistance certain amounts and types of income. The principle of equitable treatment cannot be fairly applied if income from any particular source is exempted since this automatically places those fortunate enough to possess such income in a favored situation. Moreover, it is inherently a step

toward a full pension since it seems apparent that once the budgetary procedure begins to break down in any one direction it is difficult in all fairness to maintain it at all.

Even while the Committee emphasizes the necessity to grant assistance solely on the basis of actual individual need, it recognizes that many rightful irritations and grievances have developed where budgetary standards are not determined objectively or are applied with narrow rigidity. It feels that a major administrative responsibility rests on public welfare administrators and workers to develop adequate, objective standards of assistance and measures of need and to apply them with common sense liberality.

### Point No. 11

*That all aspects of the welfare program in which Federal Government participates financially be administered by a single agency at the local, state, and federal level.* This proposal recognizes that a comprehensive welfare policy and an efficient administrative organization to carry out that policy through a unified, cohesive program cannot be achieved as long as public welfare programs are scattered on a variety of independent agencies at all levels of government. The Committee recognizes the progress made at the federal level through the transfer of the Children's Bureau to the Federal Security Agency and its subsequent incorporation, together with the bureaus of the former Social Security Board into a new Social Security Administration and hopes this process will be carried forward to provide a unified administration of welfare functions. The Committee urges that the same principle be applied at the state and local levels of administration where divided responsibility is not only equally hampering to comprehensive policy and administrative efficiency but even more devastating to the ultimate victim of such divided authority who finds himself shunted from office to office in seeking the answer to his needs.

### Point No. 12

*That the need for public assistance be reduced to a minimum through strengthening the social insurance programs with respect to coverage and adequacy of benefit payments and through the addition of protection against permanent disability.* A comprehensive program of assistance and welfare services cannot fulfill its residual role unless other primary programs, especially the social insurances, are adequate to protect most people against most of the major social hazards. Public welfare administrators are increasingly con-

scious of the inadequacies of the present Old-Age and Survivors' Insurance and Unemployment Compensation programs both as to coverage and adequacy of benefit payments. The exclusion from coverage under the OASI program of the self-employed, agricultural workers, domestic workers, employees of nonprofit organizations, and public workers is not only discriminatory toward persons in these occupations but places a disproportionate burden in terms of assistance costs on those states in which these occupations predominate. Moreover, the present minimum and average payments are too low, in the face of rising living costs, to assure security to beneficiaries and supplementation, through assistance payments, is increasingly necessary. The Committee feels also that the time has come when the insurance principle can properly be extended to cover loss of income from other than the present causes, particularly permanent disability which is one of the major factors in the assistance case load.

In the same way the Committee feels that able-bodied people temporarily unemployed should not have to rely on assistance and reiterates its conviction that the only ultimate answer to the problem of an employable person is a job, that the only answer to the problem of temporary transitional unemployment is unemployment compensation and that only in the most unusual case, or as a last resort, should an unemployed, employable person be obliged to look to public assistance as an answer to his economic needs. Should large-scale unemployment develop, any effort to rely on welfare machinery for emergency relief could not only be destructive to the individuals affected but would undermine the public assistance program and discredit the very function of public welfare.

While the need for changes in the insurance programs has been widely accepted, there has not been a sufficiently active advocacy to bring them about. The Committee feels that welfare officials and workers should take an increasingly lively interest in all measures designed to reduce dependency, particularly the insurance programs. They, better than any other official group, know the heavy cost in human suffering and public expense which dependency involves and they are in the best position to speak up in behalf of prevention as the best cure.

This, then, is the twelve point platform of federal legislative objectives for public welfare as formulated by representatives of those who administer its present program. The Committee feels that such a comprehensive statement of objectives serves the dual purpose of crystalizing the goal and clarifying the direction of the impulse to move forward which characterizes all agencies and workers in the field.



## FAMILY ALLOWANCES

Hubert Curtis Callaghan, *The Family Allowance Procedure*. Washington: Catholic University Press, 1947.

THE POLITICAL feasibility of a family allowance procedure will depend upon the social and economic situation at the time at which it is proposed. We believe that a condition of prosperity tends to make the introduction of family allowance procedure more difficult. The easiest, but not necessarily the most desirable, time to create a family allowance procedure is when there is a considerable lag between wages and rising retail prices. This is not always the most desirable time, because when such a device as family allowances is proposed as a remedy for decreasing purchasing power, it is usually an emergency measure; proposed without complete preliminary studies, as a temporary expedient. Such a measure may fail to accomplish even the temporary purpose for which it was created. It will, however, have the backing of a distressed people. It will be passed by the legislature without great difficulty, but, when the temporary *raison d'être* of the allowance no longer exists, the allowances will tend to disappear.

The average worker in this country today still regards his wage as a means of meeting his current costs and his foreseeable future charges, plus a small amount for savings, security and the like. That is what he fought for when he got his present wage rate, whether through collective or through individual efforts; and that, presumably, is what he will continue to fight for. It seems quite certain that organized labor would offer vigorous resistance to any family allowance scheme. That happened in almost every country in which the scheme was proposed. Organized labor has always seen a threat to their years of effort to raise wages in any scheme which contains a basic wage and added supplement. It has felt that, at the very least, it would become more difficult to get any further increases in wages if an allowance or bonus scheme were operative. The resistance and the propaganda of organized labor is certain to be great.

If, through the agency of education and propaganda, the individual fathers of families become convinced as to the necessity of family allowances, the leaders of organized labor may find themselves in the same position as did the leaders of organized labor in France, Belgium and Great Britain. After family allowances had

been established for some time, but not generalized, the leaders of organized labor found that the majority of the rank and file favored family allowances while they, the policy makers of organized labor, opposed the procedure. The same thing could happen in the United States.

At present, those who would oppose any proposal for compulsory family allowances outnumber those who would favor such a proposal. Until the strength of these two social forces is approximately equal, or until the proponents have gained the ascendancy, no legislature would enact such a proposal.

Conflict between the family living wage and family allowances, properly conceived, is not at all necessary. Of the two, the living family wage doctrine is the more stable and has a philosophically more permanent and more satisfying foundation, because the obligation to pay a living family wage is a fundamental obligation which arises from justice. It may not always be possible for the employer to pay a living family wage. Assuming that such an employer is allowed to remain in business and continues to hire employees at a low wage, then a family allowance which will supplement the wage of the married employees is certainly justified, as long as the employer is unable to pay the family living wage to all his employees. But what of those families who have more children than the number which would be cared for under the living family wage? We believe that for them the family allowance, either in cash or in kind, is a solution.

We merely attempt to indicate what the socio-economic implications of family allowances might be. We shall assume that the Canadian Family Allowance Act is in operation in the United States. We shall further assume that a worker has one child, a boy six years of age, and an average income of \$2,500 per year. According to a study made in October, 1943, on the basis of the 1935-1936 price levels, the cost of food, clothing and shelter for this child was estimated at approximately \$212.60 per year. Under the provisions of the Canadian Family Allowance Act, this child would receive \$72.00 per year as allowances. The significance of this illustration is that the allowances paid to this child would underwrite approximately one-third of the cost of food, clothing and shelter for this child. If the father's income was appreciably lower than \$2,500, on the basis of these same price levels, the allowances would still underwrite a large proportion of these costs. The above is presented, not as a proof of socio-economic benefits, but merely as an illustration of the possibilities of family allowances.

We acknowledge that the above is an over-simplification of the case, but if we assume that the illustration is a reasonably accurate

indication of the economic benefits of family allowances, three socio-economic results are possible. (1) Parents who have only one child might see their way clear to have a second or even a third child. (2) Parents with three children might consider that the amount of the allowance would release the equivalent amount of the father's income to be saved or invested to provide some security for themselves when the father is no longer able to work; or they may consider that that amount may now be put aside against health costs or the future higher education of these same children. (3) The parents may misuse the allowances for their own personal comfort. However, we consider that the possibilities for good citizenship and for that loyal, healthy, social activity which is always reflected in the true prosperity of the family and of the community are so tremendous in the two possible results outlined above that, with proper safeguards, we may well run the risk of the third possibility.

This added income, or this portion of the father's income which is thus released for other familial purposes, can have far-reaching social possibilities. For the child, it may mean better food, clothing, health, recreation or education, or a more adequate quantity of any of these. The behavior of the children could, but would not necessarily, be influenced for good by the improvement in the environment which this added income could mean in a family.

For the family, it may mean better housing, better diet or improved recreational facilities. Psychologically, the family unit may be better adjusted and more adequate, because of the additional children the allowances make possible. For the parents, there are many possibilities, both material and spiritual, of which we can name but a few. For those parents who have willingly sacrificed many things that they might legitimately have had in order that their children might have adequate food, shelter and medical care, allowances would release a part of their income for their own use for things which are beyond the bare necessities of life. Perhaps greater than anything else, there would be hope and courage for the future. Thus, they might have a share in the full life.

For society, there are the benefits of good citizenship, community health, cooperation and prosperity. There is the possibility that the proper number of children in each family may produce a better balanced community and react favorably on the general prosperity of the community. There is the possibility of saving part of the enormous sums society now pays to meet its health bills, its juvenile delinquency and its poverty bills. These results would also be possible under a program which provided a living family wage with a supplement for all those children not covered by the living family

wage. Yet, family allowances remain still only a possibility and not a probability in this country, primarily because other socio-economic concepts such as "private initiative," "equal work equal pay" and "The American Way" now occupy a place analogous to a vested interest. These concepts have long been accepted in this country and it is not at all clear that they either can or will be uprooted by a family allowance program or anything similar to it.

Yet, the history of family allowances testifies that this same situation appeared in the beginning in every country which has a family allowance system. In every case the opposite force held the field when a few intrepid individuals started a crusade for allowances. In every case there was competition between these two forces over a period of years. In the cases where the proponents of family allowances were not strong or did not gain strength, their forces were overcome by the opponents, little was accomplished, and the movement died. In many other cases the contest between these two forces did not stop until they reached a position of relatively equal strength. In some cases before that point was reached a local program of allowances had been established through the efforts of these propagandists. The institution of family allowance schemes on a universal scale by the civil authority has never been feasible until at least this condition, which we have called dynamic equilibrium, has been achieved. This equilibrium may be broken subsequent to the establishment of a social institution and the strength of the proponents of family allowances may increase or decrease, depending upon the stability of the principles on which they have built their allowances.

It may be that in this country we are taking our first steps toward the institution of family allowance. It may be that the United States will never actually have family allowances on any great scale. Much depends on the leadership, abilities, and the number of those who attempt to create and control the social force for family allowances. The definite possibilities for family allowances or living family wage, or both, are there, but neither is a probability as yet in this country. In this country family allowances are a definite possibility, but they are not as yet a probability.

In summary:

(1) The living family wage is based on a more fundamental principle of social life than the family allowance and is, therefore, more stable than the family allowance and the more important object of social and economic action. As regards the economic burdens of children beyond those provided for by the living family wage, the family allowance provides an admirable solution. If the

family living wage be unattainable, the family allowance provides a temporary expedient worthy of very serious consideration.

(2) Family allowances under a voluntary regime have not proven practicable in countries where they have been tried, and we do not believe that they would prove practicable in the United States.

(3) It is possible that either a system of compulsory government financed family allowances or a system of allowances paid through state or privately operated funds under governmental supervision as to charter and operation could be successful in this country. Which type should be chosen and with what modifications, will depend on economic, political and social factors present at the time of their institution.

(4) We do not believe that the probability of compulsory universal family allowances in the United States can be discussed, because one of the essentials for the probable existence of a social procedure is a social movement organized to a certain degree. We fail to note the existence of any such organized movement in the United States at present.

(5) The prospects for the constitutionality of family allowance legislation on a federal basis seem reasonably good from an analogy with the Social Security Act and the Federal Reserve Act.

(6) The political possibilities of any family allowance procedure will depend to a large extent on national and local conditions at a given time. Probably the most potent factor working against the political feasibility of a family allowance procedure will be the opposition which may be expected from organized labor.

(7) The socio-economic implications of a family allowance procedure are important because they are many. The allowance may be the means of providing adequate care for children who previously had been receiving inadequate food, clothing, medicine, recreation or education. Indirectly, it could release enough of the parent's income to make more children economically possible. It could release enough of the parent's income so as to raise the standard of living of the whole family to a more desirable level. Finally, this general improvement in family living should be reflected in better citizenship and a full community life.

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## CHAPTER VIII

# ECONOMIC AND FINANCIAL ASPECTS OF SOCIAL SECURITY

"To look to individual employers for maintenance of demand and full employment is absurd. These things are not within the power of employers. They must therefore be undertaken by the State, under the supervision and pressure of democracy, applied through the Parliament men."

*Beveridge, FULL EMPLOYMENT IN A FREE SOCIETY. New York: W. W. Norton & Co., 1945, p. 16.*

"In the last analysis the security of the individual depends upon the success of industry and agriculture in producing an increasing flow of goods and services. The very success of the economy in making progress, while creating opportunities, also increases risks. Hence, the more progressive the economy, the greater is the need for protection against economic hazards. This protection should be made available on terms which reinforce the interest of the individual in helping himself. A properly designed social security system will reinforce the drive of the individual toward greater production and greater efficiency and will make for an environment conducive to the maximum of economic progress."

*OLD AGE AND SURVIVORS INSURANCE, A Report to the Senate Committee on Finance, Advisory Council on Social Security, April, 1948, p. 1.*

## INTRODUCTION

TOTAL DISBURSEMENTS, Federal, state, and local, in all programs in the Social Security Act, amounted to nearly \$3 billion in 1946. If all public social security programs in the broad sense, including pensions to veterans and their dependents and governmental retirement and similar plans, are included, the total amounts to \$6.8 billion. Including estimated payments under private retirement and insurance policies and plans, union health and welfare plans, and voluntary

health insurance plans, the total undoubtedly exceeded \$12 billion and may have been substantially higher.

Disbursements for future years will be much higher. Under the present Federal old age and survivors' insurance law disbursements will greatly increase in future years. By 1970 it is estimated that annual disbursements will run between \$2.5 billion to \$3.5 billion. Under the expanded and liberalized old age and survivors' insurance program recommended by the Senate Advisory Council on Social Security the annual disbursements are estimated to run between \$3 billion and \$4 billion by 1955, between \$6.6 billion to \$8.4 billion by 1970, and between \$10 billion to \$15 billion by the year 2000. These are average costs for a "normal year." In a year of high employment they could be somewhat less; in a year of heavy unemployment they would be somewhat more.

Turning to costs measured as a percentage of payroll, a comprehensive social insurance program is estimated to average eventually between 15 and 20 per cent of payrolls. Old age, survivors', and permanent disability insurance may cost eventually between 6 and 12 per cent of payrolls, depending upon the level of the benefits provided, retirement and mortality rates, employment and wage levels, and similar factors. Unemployment insurance is estimated to average about 2 per cent of payrolls over the course of an eight- or ten-year business cycle, although in years of full employment disbursements may amount to only 1 per cent of payrolls, and in periods of heavy unemployment they might average 4, 5, or 6 per cent of a lower level of payrolls. Cash benefits for temporary disability are estimated to average 1 to  $1\frac{1}{2}$  per cent of payrolls. Health insurance—that is, medical services to insured persons and their families—is estimated to average about  $3\frac{1}{2}$  per cent of payrolls in the early years of the program, and as personnel and facilities expand, to average 4 to 5 per cent of payrolls in later years.

Although all the above estimates, whether in dollars or percentages of payroll, are subject to a considerable margin of error, they do indicate that social security is a big enterprise



that has many economic, financial, and social ramifications. With the exception of expenditures for national defense, social security expenditures are already the largest single group of combined Federal, state, and local governmental expenditures. They warrant, therefore, very careful consideration with respect to their impact on the economy in general, and on communities, individuals, and families. Because of the special provisions in law or in private plans, their impact on particular industries, states, and income levels is also of special importance.

In studying these matters, attention must be paid to the fact that social security contributions and disbursements do not necessarily involve increased contributions or disbursements to the economy as a whole. They do, however, involve shifting of the burden of initial payment of costs, some adjustment of income yields and disbursements in relation to the business cycle, and modification of the eventual incidence of costs. Although precise effects are difficult to ascertain, the effect of social security plans may be that the young pay for the old, the well for the sick, the employed for the unemployed, the high-income person for the low. Yet such a statement is obviously an oversimplification because of the multitude of factors involved. The character of the taxes and premiums used to finance the programs, the nature and level of the benefits provided, and the relationship of both factors to employment, income levels, and numerous other factors in the economy, make it impossible to make a flat statement which will stand for all programs under all circumstances.

Although social security finances may be viewed from many points of view, two of the most important points of view are those of the individual and the nation. The individual may see his problem of financing his social security in the simple form of paying his costs. Such problems as investment of the funds, their effect on enterprise, and their inflationary or deflationary effects may not be very apparent to him. As an individual or as the breadwinner of a family, his concern is with paying his share when he can and having the assurance of

receiving the benefits promptly when they are needed. This is equally the concern of the nation. Yet broader economic and financial matters must concern the nation's lawmakers and the administrators of social security. Their task must be to meet the needs of the individual and his family, taking into account the psychological and political factors which affect the individual and the over-all national needs and circumstances.

It is not always easy to adjust the different approaches of the individual, the lawmaker, the administrator, and the economist. Each comes to the problem with the same general purpose, but with a different emphasis. Where multiple purposes must be achieved, a simple single formula is not the likely solution. Economics and finance are so intertwined with other elements that it is difficult to tell how to weigh the various elements except perhaps in particular instances. Even then there are reasonable differences of opinion among reasonable people.

One conclusion may be drawn from the last 15 years of discussions on social security: conditions change and so do people's ideas. So, like other issues in social security, we may expect changes in theories and judgments on economic and financial issues. Constant re-appraisal of experience and future expectations, therefore, is essential.

No doubt the complexity of the economic factors involved in social security makes it difficult to predict the way a particular provision will operate. Where incentives are involved, the economist must join with other professions in attempting to analyze possible future trends. Here is the difficult task—how the many varied skills can join together to adapt a gigantic program to changing needs.

## IMPACT OF SOCIAL SECURITY UPON MOBILITY AND ENTERPRISE

Sumner H. Slichter, "The Impact of Social Security Legislation Upon Mobility and Enterprise," *American Economic Review*, Supplement, March, 1940.

THE FOLLOWING general conclusions stand out from this analysis:

1. About one fifth of the labor supply is mobile and works for more than one employer in the course of the year.

2. Despite the fact that the amount of movement in the labor market is considerably less than in prewar times, it is probably excessive. It is excessive in the main because it is forced and represents organization of work to an uneconomical extent upon a casual basis, but partly because much of it is uninformed.

3. Little is known about the 10,000,000 or more persons who supply the demand for temporary workers. Many of them undoubtedly have a principal occupation which dovetails with temporary employment outside of it. Some of them are seeking only part-time employment either for a few months of the year or part-time throughout the year. Some are young workers who have not succeeded in obtaining the status of regular employees. Until more complete and definite information concerning the suppliers of temporary labor becomes available, we shall be in the dark in deciding many important questions of policy.

4. The excessive amount of intermittent employment creates a strong prima facie case in favor of experience rating. This does not mean that specific experience rating provisions in existing legislation are well conceived.

5. The old age provisions of the Social Security Act tend to break down barriers to movement—a desirable result. To some extent their effect will be counteracted by the old age assistance plans which are based upon residence requirements that should be altered.

6. Definite information is lacking on how many and what kinds of people fail to qualify for unemployment benefits because their earnings or employment is insufficient.

7. Unemployment insurance is not likely to affect the mobility of most of the covered workers because the great majority who qualify for benefits have attachments to particular employers which discourage them from moving and because the duration of benefit

payments is short. To some extent, however, unemployment benefits may discourage movement by encouraging workers to remain on the chance that more or less indefinite reemployment opportunities may become realities. This is likely to be a good result in a majority of cases.

8. The present trend is to make eligibility requirements for unemployment compensation more strict. Perhaps the trend should be reversed as the present laws seem to give protection to the workers least in need of it and not to reach those workers most in need of protection. The problem of more liberal eligibility requirements is complicated by the fact that many short-term or intermittent workers are not seeking full-time employment. Until more is known concerning the persons who fail because of insufficient earnings or employment to qualify for unemployment compensation, we are not in a position to judge the desirability of changes in eligibility requirements.

9. Relief is likely to affect the mobility of many thousands of persons of low employability. However, the effect of relief upon mobility must not be exaggerated. The rise in hiring standards will probably cause industry to draw on the huge labor reserves among the nonemployed and in agriculture before engaging the persons of low employability on relief. Hence, an expansion of the proportion of the population at work in nonagricultural pursuits to substantially higher figures than prevailed in the twenties will probably not reduce unemployment (over and above seasonal unemployment) to below 2,500,000.

10. Social security taxes encroached upon profits to a moderate extent in 1937 and limited the expansion of business. The excess of collections over disbursements was less in 1938, but the proportionate reduction in profits was greater. Although the social security taxes were not an influence of first importance in intensifying the depression, the encroachment upon profits must have restricted commitments. In both 1937 and 1938, the social security taxes substantially affected the profits of the railroads.

11. It is unlikely that the incidence of the pay roll tax in the long run will be broadly diffused throughout the economy by higher costs which will induce larger income flows and thereby higher prices. For a period of fifteen years interest rates may be moderately affected by the program. After that time its effect upon interest rates will be negligible. In the area of competitive wages determination, the pay roll tax will move the demand curve for labor to the left. To a small extent the payment of benefits will also move the supply curve of labor to the left. This will affect the new enterprises far more than existing ones. It remains to be seen whether or not

the program will materially affect the birth rate of new enterprises and the resiliency of our economy.

12. The social security program will increase the bargaining power of trade unions and tend to reduce the interest of unions in the effect of their wage policies upon the volume of employment. It will tend to increase the rate of discovery but to reduce the proportion of discoveries that are worth exploiting. Its effect upon the volume of investment, therefore, is uncertain. Trade union wage policies, however, are likely to be less affected by social security than by longer experience of unions with collective bargaining. But since the social security program tends to diminish the concern of trade unions with the volume of employment, it creates the need for developing wage structures and forms of wage payment which increase the interest of unions in employment.

### *ECONOMIC PROBLEMS IN PROVISION AGAINST EMPLOYMENT HAZARDS*

Eveline M. Burns, "Economic Problems in the Provision of Security Against Employment Hazards," *American Economic Review*, Supplement, March, 1940.

**R**EDUCED to their barest essentials the economic problems in the provision of security against employment hazards are of two types: those which arise from the nature of the benefits or assistance provided and the conditions laid down for their receipt, on the one hand, and those which arise from the methods of providing the necessary funds, on the other. Hitherto industrial societies have characteristically met these problems by instituting a constellation of autonomous programs, each having its own objective and each having a unique type of benefit and conditions of eligibility and its own presumably appropriate methods of financing. Thus the insurance type of unemployment benefit is characteristically financed by earmarked pay roll taxes and usually (although not normally in this country) by wage taxes. Direct unemployment relief given on a means test basis has generally been associated with a method of financing that relies upon general tax sources (which may be 100 percent local as in this country or 100 percent central as in Great Britain since 1934). In this country work relief programs have tended to be associated with federal financing.

In each case the methods of financing and the benefit structure have been justified in terms of the major objectives of the program in question. But when we regard these systems as parts of an articulated whole it is evident that this approach to the problem means that either the relative importance of a particular form of benefit in the constellation of programs depends on the funds available from its specific tax sources, or that the extent to which particular methods of financing are employed will automatically depend on decisions as to the desirability of one type of assistance as compared to another. Experience suggests that this policy does not always lead to the most economically desirable results.

In Great Britain the motivating force for adoption of unemployment insurance was undoubtedly a concern over the unsuitability of the poor law type of assistance for the normally employable worker. The financial methods were a means of securing the adoption of a new type of assistance which admittedly involved certain economic risks. During the twenties the increasing volume of unemployment forced extensions in the insurance system which fundamentally modified its character. From a limited system carrying a relatively small governmental subsidy, it became by 1931 a system providing for 87 percent of the unemployed and financed to the extent of almost 50 percent by central government subsidies. Thus extended it became impossible to argue that this type of benefit was being paid only to workers for whom flat rates of benefit, unrelated to wages and paid regardless of need and without any requirement to undertake training or transfer, were appropriate. The important point to note is that this change in the insurance system took place precisely because the original internally consistent and necessarily limited insurance system failed, on the one hand, to provide for as wide a use of the insurance system as was consistent with popular views regarding the desirability of this type of benefit as compared to others, while, on the other hand, the limitation of central government responsibility to aid through a relatively insignificant insurance system left the localities with an unemployment relief burden which their fiscal resources could not carry.

The incorrectness of the assumption that the relative part to be played in the total program by a particular type of assistance could satisfactorily be determined by the yield of specific taxes is still apparent, despite the reorganization of the British insurance system after 1934. In 1936 the Statutory Committee, which is responsible for seeing that the funds are adequate but no more than adequate to meet benefit liabilities, decided to refrain from using a surplus to increase the duration of insurance benefits, much as its members

would have liked to see this type of benefit more widely used. They refrained, because an extension of insurance involved a reduction in the numbers receiving assistance and since the latter was financed 100 percent by general taxes, whereas insurance was financed only to the extent of one third from this source, they were unwilling to take a step which in fact implied increasing the relative share of the total costs of aid to the unemployed which would be carried by wage and pay roll taxpayers.

In this country we have also instituted a system formally analogous to unemployment insurance. But here the impetus seems to have come from the opposite direction. Emphasis has been placed upon the system as a method of financing rather than as a system of benefit payments. Unemployment compensation has been promoted either as a technique for utilizing incentive taxes or as a device for minimizing the painful process of tax during depression. The benefit system is a by-product of this mechanism -to be determined by reference to the size of the available funds.

I believe that such a system is essentially unstable. Already there are signs that such support as was given by business to the variable pay roll tax arose out of a recognition of its potentialities as a device for securing tax reductions rather than as stimulus to stabilization of employment. And the very fact that benefits were so sharply restricted in the interests of a solvent fund is now being used as an argument in favor of decumulating reserves. For it can now plausibly be argued that benefits with an average duration of ten or eleven weeks and paying at most 50 percent of wages could not have been intended to provide against cyclical unemployment and the case for accumulating reserves against bad times is to some extent weakened. If this pressure continues, together with the theory that benefits are to be adjusted to what can be financed from these ever diminishing pay roll taxes, the type of benefit which we call unemployment compensation may come to play a minute role in the total unemployment program. Certainly its role will differ from that which would be assigned to it if the problem were approached by asking what would be the appropriate place of this type of assistance as compared with available alternatives.

I have spoken so far only of unemployment insurance, but one could equally well ask whether the prevalence of work relief in this country is due to a reasoned preference for this type of assistance as compared with others, or whether it is due to the fact that it is the only route by which federal financial assistance can be secured for unemployment relief.

In the financial realm the consequences of attacking the problem solely in terms of the inner requirements of independent pro-

grams are equally unfortunate. In Great Britain today workers and employers are obligated, until 1971, to pay taxes to liquidate a debt incurred by the insurance system in 1921–31 when it was, in fact, carrying the major unemployment load. It is difficult to find any economic or social justification for this temporal distribution of costs. The only explanation can be the desire to implement the theory that the benefit system prevailing in 1921–31 was an insurance system which ultimately, i.e., by 1971, could be called solvent.

Again, Germany, Great Britain, and this country have tried to solve the problem of allocating financial responsibility as between governmental units by the principle of exclusive financial responsibility. Assistance given, subject to passage of a means test and usually involving direct relief in kind or in cash, has been held to be a financial responsibility of localities. But considerations relating to the nature of the assistance given have served to limit the relative importance of the programs held to be appropriately, and often exclusively, financed by the central government (e.g., insurance or emergency work programs). The result has been to throw upon the fiscally limited local authorities an increasingly large residual, which has distorted local finances and frequently led to the curtailment of essential, locally provided social services.

If we abandon this attempt to create a series of autonomous unemployment measures in which particular types of benefit or assistance are associated each with its own particular methods of financing, it becomes possible to discuss the basic economic problems more intelligently. We can then inquire, firstly, what types of provision would seem to be appropriate for different types of unemployed persons and, secondly, what would seem to be the economically and socially desirable methods of financing a total program of a given magnitude and probably temporal distribution.

But as soon as the problems are posed in these terms we realize how inadequate are the data on which we have to base policy, and for this I cannot but feel that we as economists have been largely to blame. For we have tended to assume that this field is one that could safely be left to administrators and social workers, and have been relatively indifferent to the economic implications of the specific programs now in operation.

A major decision in public policy concerns the type of assistance to be provided. The economic impact of the different measures has two aspects: the volume and timing of the expenditures resulting from adoption of given programs and the effect of each upon mobility and enterprise. It is evident that a policy of supporting unemployed workers by the offer of employment at standard rates of pay, hours, and working conditions will involve a



larger volume of government spending than one which provides the bare essentials of living only to those of the unemployed who are destitute. Determination of the relative parts to be played by each of these programs by reference to economic criteria in this sense calls for knowledge of the kind of economy in which these measures are to operate. If for example there was a consensus among economists that, in Professor Hansen's words, "the problem of our generation is, above all, the problem of inadequate private investment outlets," a work program on a non-relief basis might perform a desirable economic function as a method of providing a volume of investment adequate to secure full employment. But the extent of such a program and the criteria for determining when it should taper off would then be based on considerations relevant to such a broad function and might differ markedly from a works program conceived of solely as a measure for providing bare maintenance to needy unemployed.

On the other hand, if it could be shown that the problem was not one of a secular decline in investment opportunities but of cyclical maladjustments which might be remedied by a rapid and temporary expansion of government spending, the choice between a large public works program and more generous cash payments to the unemployed would be made by reference to different criteria, among which the speed at which payments could be affected would be a major item.

Until economists can reach more unanimity on the nature and causes of contemporary unemployment, it is, I suggest, unfair to criticize our present combined public works and work relief policies for the fact that they appear to operate now on one assumption and now on another.

I will admit that I am asking much of economists and my major complaint is not so much that they speak with so little unanimity on this subject, as that they have almost entirely neglected to do any positive work on the other side of the problems; namely, the effect of different measures on enterprise, mobility, and the flexibility of the economic order. By and large, they have concerned themselves with generalizations: they discuss whether the guarantee of a minimum income is likely in general and in the long run to increase rigidities and to weaken initiative. Leaving aside the question of the meaning of rigidity, which in itself calls for more careful definition, I would be inclined to hold that we do not need Rueffian or less objectionable statistical or analytical demonstrations to prove that the introduction of a minimum guarantee into an individualistic society will make workers less willing to accept any type of employment at any wages, and in that sense will reduce flexibility.

My quarrel with the economists is that they are inclined to stop at that point. They do not proceed to ask whether we are in a position to say that in a society exhibiting other rigidities, the introduction of a similar element into the labor market is necessarily economically and socially unwise. Is there any validity in the theory of the downward spiral of which so much was heard in 1933? Are there some segments of the labor market where increased rigidity would be less harmful than in others? But even if we could assert with finality that new rigid elements have been in principle introduced into our economic order, it would seem to be more realistic on the part of economists to accept as given data the fact that some minimum guarantees are likely to be a feature of contemporary society and to commence and not finish their analysis at that point. Such an approach would involve a twofold line of investigation.

In the first place it would involve much closer attention to the types of benefits provided by the different programs and to an even more neglected field, the conditions of eligibility for each. The programs are far from uniform. Moreover, one which might adversely affect enterprise and mobility if widely extended might have positively advantageous results if confined to a selected group. Thus even an apparently standardized institution like unemployment insurance exhibits variations which affect mobility and enterprise in differing ways. Benefits roughly equivalent to the maintenance level and carrying dependents' benefits may have one type of effect; those equivalent to 50 percent of a man's full-time earnings will have another. What are we to say about the effect on mobility and enterprise of the type of weekly benefit which is becoming increasingly common in this country and which is calculated as a fraction of a man's total quarterly or annual earnings? Can we indeed say anything significant on these points without more analysis of the actual payments resulting from these formulae and their specific relation to the previous incomes and employment status of the recipients? Can we say, if our present 50 percent formulae result in average payments so low as to call for a substantial amount of supplementation from public assistance, whether the economically sound adjustment would be by increasing the percentage or by providing dependents allowances, on the one hand, or by changed eligibility requirements which would limit this type of benefit to persons for whom a 50 percent formula would mean a significant sum, on the other? There is a general tendency to assume that work relief is "less degrading" and less destructive of economic incentive than direct relief. But we cannot say whether this difference lies in the fact that a worker is required to make some return for his assistance or that he receives a larger money sum than he would get on

relief. Do those who criticize the program know whether its alleged weaknesses lie in the methods of remuneration adopted, in the types of employment offered, in the principles by which the number of days worked are determined, or finally in the eligibility criteria by reference to which recipients of this type of assistance are selected?

Economists have been, as I have already said, peculiarly neglectful of the economic implications of the conditions governing eligibility for the different types of assistance. This is the more strange since the major purpose of these has been to limit the economic risk involved in making payments of various kinds by carefully defining the groups who may participate in each. Yet because of a lack of data as to the nature of the labor market the framers of these conditions have been compelled to work in the dark. It is generally assumed, for example, that the payment of insurance benefits which require no test of need should be confined if possible to persons who are normally attached to the labor market. Yet what does that phrase mean? To judge from current legislation it may mean a worker who has worked not less than a given number of weeks in the preceding one year, or two years; it may mean one who has earned a given sum of money over some period such as a year or a quarter. In England it might mean a person who had worked at least one day in thirty separate weeks in the two years preceding his benefit claim. Clearly the economic implications of these criteria are very different because of the differing patterns of employment of individuals.

The worker who, for example, has earned a given minimum sum in a preceding specified period may be one who normally intends to work full time but has been unable to secure full employment, or he may be one who has worked and intended to work only one or two days a week. Minimum earnings as a criterion of eligibility admits the highly paid seasonal worker to full benefit rights, and may yet exclude a more or less regularly employed worker whose full-time earnings are very low. I can put the matter another way by saying that a policy of compensating workers for weeks and especially days or half-days of nonemployment has different economic effects according to whether the worker is one who normally attempts to secure six days work for fifty-two weeks and depends upon what he earns, or one who works in a seasonal trade where slack periods in part of the year may or may not be compensated by high wage rates when in employment, or one who regularly works and intends to work only for a brief season in the year or for one or two days a week and is therefore presumably not wholly dependent on his annual earnings, or finally one whose employment either voluntarily or involuntarily is casual or irregular and who is

at all times partly dependent on public or private organized relief. To apply uniform policies which assume that a day of nonworking has the same significance for all these types of cases is bound to create anomalies and economic difficulties. Yet at the present time legislators cannot frame their eligibility rules in any certainty of the order of magnitude of the groups included or excluded, or of the resulting financial and economic consequences of their actions, because they possess but limited knowledge of the anatomy of the labor market.

There is yet another aspect of the conditions attached to the receipt of assistance which calls for greater factual investigation. The requirement to undergo a test of need, or means, test is a very general eligibility condition, being absent only in the social insurances and in certain types of emergency public works. The history of unemployment measures in Great Britain, in Germany, and to a lesser extent in this country suggests that the general unpopularity of this condition has been a potent stimulus to the evolution of social insurance and other programs where it is not insisted upon or applied only in modified form. Framers of social policy need guidance as to the economic implications of enforcing this requirement.

It is obvious that one economic function of the means test is to ensure that public funds conceived to be limited should be used first of all for those whose need is greatest. Already, however, there are economists who challenge the concept of limited public funds. If they are correct in their views of the ameliorative economic values of public spending in depression periods, the case for the means test as a check on expenditures falls.

But the needs test is also defended as a method of implementing the individualistic basis of our society. It is often asserted that the spirit of independence and initiative would be eroded unless state policy implements the view that the individual is in principle responsible for his own welfare. In the realm of unemployment relief this policy has taken the form of a refusal to provide governmental assistance until it can be shown that the resources of the family are inadequate. Yet analysis of data collected by the Unemployment Assistance Board in Great Britain suggests that enterprise and initiative may be just as adversely affected by the operation of the generally applied household means test. Analysis of the resources possessed by households of applicants in two recent years showed that over 70 percent of these resources were attributable to earnings, and of this total, 50 percent in 1935 and 64 percent in 1937 were earned by sons and daughters. Since another 26 percent of reported resources took the form of income from other social insurances and was therefore not liable to assessment, the enforcement

of family responsibility meant in fact that the major share of the burden of maintaining the unemployment assistance claimants was thrown upon those who would normally be expected to be founding their own families. When it is recalled that the unemployed thus supported are by definition the older age group and the long-period unemployed whose chances of reabsorption are least, the effect upon the initiative and enterprise of younger workers who see all additional earnings mortgaged to support a permanent burden cannot but be adverse. If we could secure and analyze similar data for this country on the incidence of the test of needs and the composition of family incomes we should be in a much better position to answer the question: What part should be played by a test of need in a comprehensive unemployment relief program?—policy would be based on economic realities not on vague generalizations.

Acceptance of the fact that contemporary societies must provide some minimum guarantee if only to preserve some shreds of social and political stability might lead economists, in the second place, to explore the possibilities of offsetting the harmful effects on mobility and enterprise by compensatory governmental action. Whether we think in terms of governmental promotion of mobility in the form of training or assisted transference schemes, or of more positive coercive measures such as the denial of benefits or assistance to individuals who refuse to shift, it is clear that at the present time we as economists have little to offer in the way of guidance. If a training program is envisaged, can we suggest the types and degrees of skill which should be made available? We have recently heard much of bottlenecks, but at the moment they seem to belong in the attic with Dr. Clapham's famous empty economic boxes. Is it any wonder that in the absence of guidance from economists the British Ministry of Labour has limited the places available on its training program to the chances of immediate placement on conclusion of the course, a policy which results in a progressive reduction of training facilities as the depression continues?

Again if assisted transference is contemplated, can we give much technical advice? Can we, except in the most general terms, indicate the areas from which workers should be transferred and to which they should go? Can we say anything significant about the relative economic desirability of attempting to entice industries into depressed areas or of moving workers away from them? The bitter experience of the British Special Areas Commissions suggests that little is known of the forces governing decisions of businessmen as to where to locate. I suggest that we know almost equally little about the extent of or the incentive to geographical and occupational mobility on the part of workers. How large a wage differen-

tial is required to offset the costs of moving given distances? Is mobility stimulated more by unemployment and low wages in the home area, or by prospects of higher wages and better general opportunities in the new area? Is it inhibited by family ties, or by anticipated housing difficulties, or are there other factors still less susceptible of measurement? Is mobility greater among high paid than among low paid workers? If the fifty-one separate state compensation systems are found to impede mobility, have we as economists any suggestions to offer as to groupings in areas or regions within which free mobility is especially desirable?

I have deliberately devoted most of my time to discussing the first of the two types of economic problem to which unemployment measures give rise, partly because I believe that these are today most in danger of neglect, and partly because the two other speakers are giving particular attention to the financial problems. Even in the financial realm, of course, the data on which policy must be framed are far from adequate. We commit ourselves to a policy of state unemployment compensation systems with little information as to the incidence and duration of unemployment among the covered group in each area and therefore of the ability of a uniform 2.7 percent tax to finance the benefits offered. We grapple with problems of the proper distribution of costs between federal, state, and local authorities with little data as to the basic fiscal, and particularly economic, capacities of local areas in relation to the burden they are expected to carry. We adopt the pay roll tax as a major source of income for one of our programs with little knowledge of its probable incidence and still less of its potentialities as an incentive tax.

But in the financial field, I believe that the problems which face us involve less the accumulation of new data than a more vigorous attempt to consider the financing of separate unemployment measures in relation to one another and to the general economic and fiscal background. This is not to imply that we should abandon any attempt to inquire whether the values of certain programs are not enhanced by the use of particular financial methods. It is undeniable that the linkage of specific taxes with specific benefits in the institution known as social insurance has enabled us to overcome resistance to the introduction of a new type of aid to the unemployed into a still highly individualistic society. But if we should decide that wage taxes are undesirable or have social consequences incompatible with our basic objective of security or that the incidence of pay roll taxes falls on the very groups whose insecurity we are trying to remove, the solution is not necessarily an abandonment of these taxes. Should we not explore the potential-

ities of compensatory action in other parts of the government's taxing and spending activities?

Can the case for accumulating reserves in an unemployment insurance system be discussed independently of the economic system of the country at the time the process of accumulation is initiated or of the timing of disbursement of these reserves? Can we expect the accumulation of reserves to serve the purpose of "pegging" or maintaining a stable benefit structure if the other unemployment programs are financed on a current cost basis and reflect every changing political whim? Is the accumulation of reserves appropriate only for unemployment insurance or should the principle be applied to other unemployment measures? And if a unit of account longer than a year is desirable, why are reserves favored and borrowing disapproved of?

Some of you may object that I am attempting to lure economists into a dreary statistical and factual course, unworthy of their high calling. Yet I cannot see that exploration of the structure of the labor market is intrinsically less interesting than analysis of the capital market, or that the compilation of statistics of the movement of security prices, interest rates, or demand deposits is a sharper challenge to intellectual ingenuity than analysis of occupational or regional wage rates and earnings or the charting of specific portions of the labor supply curve. One explanation of the current preoccupations of economists may be the greater prevalence of theoretical concepts and dignified technical terminology in the capital field, but that can easily be remedied. Marschak already offers us coefficients of mobility, measures of attraction, and coefficients of spatial friction.

I believe, however, that a more important explanation is the accident of availability of data. But thanks to our new social security legislation, a considerable amount of data in the labor field are now becoming available. And data will become increasingly available if economists will turn their attention to this field and take the responsibility of suggesting the types of the determination of future policy. The work of Jewkes, Campion, Thomas, Marschak, and others in England has shown how much can be gleaned from the administrative records of the unemployment insurance system. In this country, the almost complete reliance upon quarterly reports and abandonment of information on weeks of work has deprived us of certain essential data, and economists have raised little or no protest against this outrage. The reporting requirements incidental to the payment of insurance benefits offer the possibility of securing significant data on labor mobility, as between places and occupations, and on the patterns of employment and unemploy-

ment, and the levels of earnings and wage rates. This information will not be secured unless economists bring pressure on administrators to frame their questions in appropriate terms and occasionally to ask for more than is immediately essential for administrative purposes.

## *ECONOMIC PROBLEMS IN PROVISION AGAINST LIFE HAZARDS*

J. Douglas Brown, "Economic Problems in the Provision of Security Against Life Hazards of Workers," *American Economic Review*, Supplement, March, 1940.

EVER SINCE men have worked for wages, attempts have been made to develop some means of obtaining protection against dependency when wages cease. Workingmen's funds, friendly societies, trade union benefit plans, mutual benefit associations, and individual and group insurance are but a few of the devices invented by man to lessen his insecurity in the face of the more serious hazards of life. Social insurance, now a half-century old, is but one of many social institutions which have evolved out of long experience. Adapted to an industrial society, it has, however, grown with remarkable rapidity in recent years.

A complete analysis of the economic problems of providing security against the life hazards of workers would necessarily include an extensive discussion of various types of relief. At a time when our country is putting into high gear the largest single social insurance scheme in the world, it seems more appropriate, however, to weigh the economic problems of the insurance method of attacking insecurity. On January 1, a system of old age insurance, which has been gaining momentum over five and a half years, comes into full operation.

It may be well at the outset to distinguish between that type of social insurance covering the life risks of workers and that covering employment or other current risks. In the first category fall insurances against dependent old age, premature death, and permanent disability, with the associated risk of loss of support for dependents. In the latter category are the insurances against loss of employment and temporary illness or disability. An important distinction, affecting both legislative policy and administration, is that the former



type of risks involve the permanent elimination of the insured wage earner from the labor market, while the latter involve only temporary elimination. In both unemployment and health insurance, an important element in the program is the provision of adequate means of aiding the worker to return to gainful employment.

Under insurances against life risks, the payment of benefits is in most cases related to changes in the physical life of the insured such as the attainment of a predetermined age or the occurrence of death. Permanent disability is less easy to determine but remains primarily a physical rather than an economic condition. But once approved, benefits under these insurances usually continue for relatively long periods of time. Costs are more affected by secular trends in longevity, mortality, and the progress of medical science than by cyclical variations in business or by technological change. Obligations and expectancies accrue over relatively long periods of time and extend far into the future. For these reasons, it is peculiarly important in this type of insurance to plan finances many years ahead.

On account of the reciprocal nature of the risks of premature death on the one hand and dependent old age on the other, it has proved advantageous to cover these two risks in a single insurance system. Insurance against permanent disability, including many of the same elements of risk, seems a logical addition to the system although introducing many new administrative problems. Even with this addition, a combined program of old-age, survivors', and invalidity insurance seems relatively manageable under a single administration. A predominance of routine operations and the need for the soundest possible financial and actuarial base suggest the advantages of a single, national system of large dimensions. With such a large, national system, economic problems are bound to arise.

In determining the proper financial policy for an old age insurance system, a question has been raised by some as to the possible impact of the program on the rate of capital accumulation in the country. Without entering upon the controversy which surrounds the general problem of savings and investment, it is relevant to estimate the degree to which this form of social insurance may prove a complicating factor.

There seems to be no ground for assuming that employee contributions under old-age insurance will materially reduce the rate of savings of the wage-earner group as a whole. In the case of a large number of workers of lower income, there is little or no saving to be reduced. For a middle income group some reduction may occur. But experience under private plans for wage-earner security indicates that a very real possibility exists that savings may be stim-

ulated by the provision of basic, compulsory protection. In the absence of any planned provision for old age or surviving dependents, many wage earners able to save appear to consider adequate protection beyond their reach. With the provision of a certain but limited scheme of benefits, incentive is aroused to build upon this foundation of basic protection. Thrift is a habit which like all habits grows upon the satisfactions it affords. The sense of security in a status of life for oneself and one's family is a satisfaction of no mean significance in determining economic motivation. The number of company pension plans supplementing the protection afforded by the old-age insurance program is growing steadily and, despite the requirement of employee contributions, such plans seem to be meeting with a favorable reception on the part of the wage earners covered.

Employer contributions to the old-age insurance system are probably shifted in such large measure that the impact on the accumulation of surpluses by corporations will in all probability be slight. However, should pay roll taxes rise sufficiently, the incentive to introduce labor-saving machinery may involve a considerable amount of plowing back of profits into this type of equipment. In that case, saving and investment will go hand in hand, or new channels of investment may be created.

The effect of the net income accruing to the old-age insurance fund upon the general rate of capital accumulation will, of course, depend upon the use made of such income. In a time of deficit financing, the proportion going into noncapital expenditures will probably be large despite the expansion of public works. The repurchase of debt in a time of surplus financing would transfer income from wage earners more likely to spend to bondholders more likely to save. An important argument for avoiding the accumulation of a fund beyond that needed as a shock absorber within the system is the advantage of preventing such interference with normal economic processes.

Perhaps more important than the impact of a national system of old-age insurance system upon the general rate of capital accumulation will be its impact on the mobility and incentives of our people. The character and force of these impacts are, however, still largely matters of speculation. Only after benefits have been paid for a considerable time and become a part of the thinking and planning of our people, will the full effects of the system be apparent. However, bits of evidence are already accumulating to lend some weight to tentative premises.

It is probable that old-age benefits under the revised 1939 scale will be sufficient to encourage some movement of superannuated

beneficiaries from high- to low-cost areas of residence. Since benefits under the federal insurance scheme are payable anywhere in the world, it will be a sensible arrangement for an aged individual or couple to move from city to town or country, from North to South, or from America to the country of birth. The present movement from northern states to Florida and from the Midwest to California may be accentuated as federal benefits, payable for life, supplement savings. Such a movement would certainly be compatible with sound economic distribution of our population. Just as the cities draw upon the country for youthful population at a time in life when rising productivity permits the absorption of the higher costs of urban life, so the country will attract back to itself the older persons who, with impaired productivity, are enabled through insurance to draw upon the general stream of national income.

In the case of wage earners in their productive years of life, the insurance system may likewise encourage mobility. To the extent that younger workers have been tied to a locality by the need to support aged parents, this tie will be lessened. Old-age insurance benefits of relatively adequate amount, assured certainty, and entire respectability, may prove much more effective in encouraging the break than small savings or old-age assistance.

Likewise it seems probable that the relative attractiveness of employments covered by old-age and other social insurances will be sufficient as time passes to encourage mobility from uncovered employments. While the latter employments occur in all types of localities, the exclusion of agricultural employment from coverage may add materially to turnover of labor in rural areas. It may well be that agricultural employers may some day press for the inclusion of their people under the Social Security Act to lessen this handicap in retaining an adequate labor supply.

In industrial employments, the revised plan of old-age and survivors' insurance will add to the attractiveness of those industries and firms which afford sufficiently stable earnings to assure continuing eligibility for benefits and an adequate average wage as a basis of benefit determination. At the same time, private pension and insurance schemes which require long periods of service for eligibility will lose some of their hold. To this extent employers will be competing more on the basis of the future possibilities of earnings and employment afforded their employees and less on the basis of expectancies growing out of past service.

Industry, generally, will have more to offer younger employees as the insurance plan becomes effective in stimulating the retirement of super-annuated personnel. Just as a limited number of progressive employers have adopted private pension schemes to

accelerate the rise of more effective personnel through the ranks, so the government plan will increase the "internal" mobility of more competent workers. In this way, the insurance plan should, indirectly, enhance the incentive of a considerable part of the wage-earning group.

Another source of incentive in the old-age insurance system is the influence which it may have on the stimulation of a desire for security on the part of our people. Not only is social insurance a means of protection but a significant educational force. Through continuing participation in the plan as contributors and through the experience of seeing benefits paid to relatives and friends, an increasing recognition of the costs and values of security seems likely to develop. Along with many others forces, the insurance plan may encourage the desire for more security among workers who previously by choice or compulsion were forced to accept a month-to-month or year-to-year existence. This added security may be attained through increased productivity and earnings or through saving of a larger share of income. In either case, both incentive and security will be enhanced to the advantage of workers, employers, and community alike.

### *ECONOMIC ASPECTS OF SOCIAL SECURITY*

Eliot J. Swan, *Housing, Social Security and Public Works*. Federal Reserve System, 1946.

SOCIAL insurance financing is not simply a matter of making benefit payments out of a solvent fund built up and maintained by premiums collected from those participating, assessed according to the degree of risk and the amount of benefit payable if loss occurs. Because this is the essence of private insurance financing, and exists to a considerable degree in the present unemployment and old-age insurance systems, it does not follow that social insurance should be financed in this fashion. In fact, individual equity in terms of premiums equated as nearly as possible to the degree of risk and the amount of benefit, comparable to the equity necessary in private insurance, is inconsistent with adequate social insurance. That lower income groups cannot afford to pay in full for the protection they receive is one of the principal reasons that voluntary social insurance is inadequate.

More important, it would be an undesirable and short-sighted policy not to consider the effects of social insurance financing upon employment and spending and not to finance the insurance system so that its operation would contribute to high and stable employment. Social insurance expenditures, properly financed, can be a significant part of a fiscal policy directed toward full employment. Benefits tend to be promptly and wholly spent by their recipients. Largely but not wholly on account of unemployment compensation, social insurance benefits in the aggregate vary directly with unemployment. Payment of benefits is a form of Government action that does not intrude significantly upon the province of private enterprise. Since the longer-run problem of our economy appears to be to develop and maintain, within the framework of a free society, sufficient demand for goods and services to utilize fully our productive capacity, social insurance is an apt governmental weapon. It should not be financed in such a way, however, that consumption expenditures will be simply shifted among individuals and left unchanged in the aggregate.

If the ultimate liability of the Government to provide benefits is admitted, separate insurance funds are no longer necessary. Benefits may be met in whole or in part out of general revenues. Contributions need not be directly related to benefits. The choice of sources of funds over and above those provided by contributions becomes a part of the problem of general fiscal policy and problems of insurance reserves do not exist.

If social insurance benefits are to be paid entirely from funds contributed by or for those insured, however, a choice must be made between a pay-as-you-go plan, in which rates are adjusted to meet current expenditures, and a reserve plan, under which level rates provide reserves to meet the increased future liabilities of an old-age and permanent disability plan and the potentially fluctuating liabilities of unemployment insurance.

### **The contributory principle**

The use of earmarked funds from pay-roll taxes and some attempt to relate contributions and benefits were probably necessary to obtain public acceptance at the inception of unemployment and old-age insurance in the United States. It was felt that separate funds fed from particular taxes would provide greater assurance that benefits would be available to claimants, on the one hand, and that excessive benefits would be checked, on the other, than if congressional appropriations were continually necessary. In addition, the fact that only certain groups were included made it difficult to

justify the use of general revenues. Contributions meet the definite desire on the part of those insured to pay for their protection. They also provide a wage record against which claims can be checked and benefit amounts determined.

It would probably not be desirable to abandon the contributory principle entirely, but in a comprehensive system, benefits could be met in large part from general revenues. The wider the insurance coverage and the more general the understanding and acceptance of social insurance as a necessary public responsibility that, like public education, conveys indirect benefits to all members of the community, the more appropriate it becomes to draw upon general revenues. The right of individuals to benefits and the guarantee that future obligations will be met do not rest on the fact that claimants have a previous contribution record nor on reserves built up from such contributions, but on the harmony of social insurance with the economic and social desires of the nation.

### The reserve problem

There is a great deal of misunderstanding about Government insurance reserves. Regardless of the financial methods adopted, the output of the economy at the time social insurance benefits are paid must furnish the goods and services consumed by beneficiaries. The real burden of maintaining the aged in the future cannot be placed upon the present generation by currently accumulating dollar credits. The real, as opposed to the dollar, burden cannot be shifted over time.

A private insurance company must provide in the present for future liabilities by building reserves which are invested in claims against others in the economy. Financial solvency is meaningful and necessary. The Federal Government, however, cannot practicably create a reserve in any form except its own obligations. The claim has been made that, in so doing and then spending the proceeds upon ordinary Government expenses, contributors' funds are being dissipated, rather than conserved, and the reserve is worthless. Although this position is meaningless in so far as it suggests insolvency of the insurance system, it illustrates the confusion arising from the existence of a large public reserve for which there is no alternative except investment in Government securities. There is no point in collecting pay-roll taxes and burying the receipts in a public vault. This would only necessitate higher taxes or more borrowing from other sources to meet general Treasury expenditures. A more efficient procedure is to make the cash receipts of the reserve fund available for general budget expenditures or for the redemp-

tion of public debt, and to credit the fund with Government bonds. But even then the fact remains that the existence of a reserve in Government bonds to meet future obligations does not alter the problem of meeting those obligations. When it is necessary for the insurance fund, in order to make cash outlays, to draw upon its reserve or even upon current income from interest, the Government must tax or borrow to obtain the money that is transferred to the insurance fund. The same amount could be raised in the same way and transferred to the insurance fund as a Treasury expenditure if the reserve did not exist.

With only particular groups covered, a reserve gives some appearance of equity between those covered and those outside. The covered group exercises a claim against the remainder of the population when the reserve is drawn on, just as it would through a direct Government contribution to the fund. The justification for this, when a reserve exists, is the fact that the covered group has previously restricted its expenditure by providing more in contributions than it received in benefits. Whether the uncovered group has actually benefited from the previous decline in expenditures of the covered group or has been adversely affected by the deflationary effect is another matter. With comprehensive coverage, even this justification disappears. To meet increased liabilities can be a matter of choice between increased contributions by participants and general Treasury revenues.

### **Government financial participation and economic policy**

The necessity for the use of general revenues depends upon the degree of income redistribution necessary to provide adequate benefits and upon the extent to which the nation wishes to integrate social insurance financing with general fiscal policy. It is often suggested that equal amounts of revenue be obtained from employers, employees, and the Treasury. A superficial appearance of equity seems to be its only basis. The responsibility of the population as taxpayers rather than as covered workers would better be expressed in a fluctuating Treasury contribution based indirectly upon the level of employment.

For example, aggregate contributions might be equated to benefits at full employment, allowing for frictional unemployment. Under such employment conditions, the effect on consumption would be more or less neutral. Contributions would exceed benefits with over-employment such as existed during the war and benefits would exceed contributions in periods of under-employment. This relationship would be in accord with a general fiscal policy which

sought to restrict aggregate expenditure when inflationary pressures exist and to encourage it when deflationary forces threaten.

The stimulating effect of social insurance upon consumption could be increased by establishing contribution rates that would provide less than sufficient funds to meet benefits at reasonably full employment. The extent to which general revenues should be relied upon at such an employment level depends upon the longer-run aspects of many factors: the distribution of income, savings habits, investment outlets, other sources of Treasury revenues and objects of Treasury expenditures, and the like. The important thing is that above a minimum which would provide recognition to the contributory principle, the sources of funds for social insurance benefits should be a matter of fiscal policy, not of social insurance. The greater the margin between contributions and benefits, the more effective social insurance can be in terms of economic policy.

Some attention should be given at this point to another proposal for increasing the effects of the social insurance program upon the level of monetary demand; namely, that of providing rates of contribution which would vary inversely with the level of employment. This procedure might tend to increase consumption in depression and check it in prosperity more effectively than would constant rates, but it has several disadvantages. To vary frequently the rate of employees' contributions would obscure the contributory principle still more, and might well provoke confusion and uncertainty among both employees and employers. The fact that contributions would go down might tend to create unwarranted demands for further reductions, and increases in contributions might be effectively opposed, no matter how definite the previously agreed upon schedule of rates might have been. There would be political opposition to increases in employers' taxes as well. There is serious question in any case about changing rates of employers' contributions according to a criterion which cannot be anticipated very far in advance. Rate changes based on unemployment would tend to make business decisions as to future events more difficult, and not enough is known about the incidence of pay-roll taxes paid by employers to indicate at what levels of employment such taxes should rise or fall. A simple inverse relation between rates and employment might be inimical to the progress of business recovery in its early stages. On the other hand, a decline in contribution rates when unemployment is rising might result only in an increase in profits that, because of its source and presumably temporary character, would have little or no salutary effect upon business activity. On the whole there is much to be said for stability of pay-roll tax rates.



Even if frequent rate adjustments were not made, the proportion of expenditures to be met from other than pay-roll taxes at high employment, once determined, would not necessarily be permanent. It would be subject to revision when underlying changes in the factors listed above seem to be sufficient to require a reappraisal of general fiscal policy. In addition, the changing age distribution of the population over the next four decades would increase expenditures, even in a comprehensive system, quite apart from changes in employment. Periodic reconsideration of sources of funds would be necessary on this account alone.

This approach would retain the contributory principle to some degree, but benefits would not be limited by contributions and the collection of revenues would be directly related to other Government finances. This does not mean that contributors would have no other financial burden related to social insurance. Manifestly, Treasury expenditures would effect them as taxpayers. The extent to which this burden would differ from the added burden of higher pay-roll taxes would depend upon the other tax sources utilized. Other public measures dealing with unemployment would be encouraged, as their success would be directly reflected in a reduction in the Government contribution to the insurance fund.

The social insurance system should be designed to promote a generally high level of consumption expenditure and to increase such expenditure when employment declines. The role of unemployment compensation in maintaining consumer expenditure in depression is limited, however, by necessary restrictions upon the duration of benefits and by necessary limits upon benefits as a proportion of wages. Fiscal aspects of social insurance should be consistent with general fiscal policy, something that has not been true under existing programs. No attempt has been made in this paper to deal with the general problem of Government fiscal policy, however, except by implication.

### **The cost of social security**

No detailed estimates of the dollar outlays involved in a comprehensive social insurance plan have been attempted in this paper. Very rough indications of possible dollar amounts may be given, however. It has been estimated that a quite comprehensive system (the Wagner-Murray-Dingell Bill of 1943) could, with high employment, be financed in the immediate future with pay-roll taxes of 5 to 7 percent. This would amount to perhaps 8 billion dollars. Those already past retirement age would not have insurance coverage but would have to rely, as now, on old-age assistance by the

States. Over the next four or five decades, as an increasing proportion of the aged became eligible and as their numbers increased, costs would rise. The cost of a still more comprehensive plan which would include all of the present aged, as measured by an application of the Beveridge plan to the United States, has been estimated at 13 billion dollars in 1945 and 16 billion in 1965.

Eight billion dollars is less than 5 percent of total income payments at full employment, and 13 billion is about 8 percent. Considered in relative terms, the cost does not loom quite so large as in dollars. But neither the dollar nor the percentage figure accurately describes the real cost of social insurance and related measures. The nature of social insurance expenditures and the effect of the system on the economy must be considered.

Almost all social security outlays are transfer payments; that is, they do not use up labor or other productive resources as do expenditures for goods and services. To build a dam involves a real expenditure in terms of labor and cement; less labor and cement is available for other uses in the economy. A similar money expenditure for old-age benefits does not directly use up any resources; it is a transfer of resources from the working population to non-producers, but total resources of the economy are not directly affected. In these terms no real cost to the community is involved, but only a change in distribution.

The real cost of social security to the nation must be sought in its indirect effects upon resources and output. Social security may affect the level of production in two ways: (1) It may alter the willingness or ability of people to work (because of the tax liability incurred or the receipt of benefits), and (2) it may affect the level of total expenditures on consumption or investment in the economy.

Transfer payments are not accomplished without friction; taxes are not painless. If too high, taxes may diminish incentives to enterprise and effort by the working population and consequently lessen total available resources. The burden upon producers of additional taxes for social security purposes is lightened, however, by the reduction in direct demands upon them for dependents' support and for contributions to private and public relief. Some goods and services must be made available to non-producers, in whatever manner.

The effect of social security benefits upon recipients whose earning power is only temporarily interrupted or has not yet come into existence is also important. Too liberal benefits may diminish incentive and effort by weakening the willingness to work. Adequate benefits, on the other hand, will increase the present and

future labor supply by maintaining incentive and protecting the health of those of working age and their children. Poverty may on occasion mother invention, but it more often breeds illness and dependency.

Unemployment is the great barrier to individual security, and it brings with it a smaller national output and an increased need for social security expenditures. An effective antidote for most—but not all—unemployment is increased outlays for goods and services. The transfer of funds to non-producers, whose consumption needs are great, will increase aggregate consumption expenditures, if funds are not wholly obtained from those who would otherwise have spent them—and they need not be. There may be some upward shift in consumption and a reduction in savings on the part of the working population as well, by virtue of the insurance protection afforded them. Some believe that insurance against the cost of medical care is especially likely to have this effect. With a small margin for saving, old age may seem far away and other demands much more immediate, unemployment and permanent disability may appear to be hazards that confront the other fellow, but illness and medical expenses are an ever present threat to every individual.

Increased demand for consumption goods and services has a favorable effect upon investment expenditure, as does the increased social stability resulting from adequate income protection. Inadequate living standards and insecurity of earning power hardly create an atmosphere conducive to a stable and prosperous economy. Against these factors must be set the possible adverse effects upon investment decisions of the taxes and public borrowing necessary to make social security payments. On balance, it seems reasonable to conclude that adequate and properly financed social security can help to increase aggregate expenditure and, under most conditions, by so doing to increase employment and real output.

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## CHAPTER IX

# APPRAISAL AND CRITICISM

"If we would guide by the light of reason, we must let our minds be bold."

*Mr. Justice Brandeis, dissenting, in NEW STATE ICE COMPANY v. LIEBMANN, 52 U. S. 387 (1932).*

"It is sometimes alleged that a complete system of social security would ultimately have the effect of discouraging self-reliance and even fostering unemployment by destroying the incentives to industry, by removing the rough but salutary influence of discipline. \* \* \* We must and do assume that the bulk of mankind who are able to work are willing to work, and that they will strive for something more than a doghouse subsistence on a dole. \* \* \* it is not fear but hope that moves men to greater expenditures of effort, to ingenuity and emulation, to sharp struggle for the values they seek in life—hope set in a framework of justice, liberty, fair play, and a fair share of the gains of civilization."

*SECURITY, WORK AND RELIEF POLICIES, Report to the National Resources Planning Board, 1943, p. 1.*

## INTRODUCTION

ALMOST ALL of the previous eight chapters have contained some selections appraising and criticizing the present social security program and suggesting revisions in existing programs or the establishment of new programs. In so far as possible these selections in previous chapters were designed primarily to deal with particular programs. The selections in this final chapter are designed to deal with more general points covering more than one program or suggesting very basic changes in present programs.

We know a good deal more today about the practical problems involved in administering social security than we knew in 1934 when the original plan was being drafted. We have had over 10 years' experience in administering the largest in-

TRENDS IN CONSUMER PRICES, AVERAGE ASSISTANCE  
PAYMENTS, AND AVERAGE PRIMARY OLD-AGE  
INSURANCE BENEFIT, 1946-48  
(DECEMBER 1945 = 100)

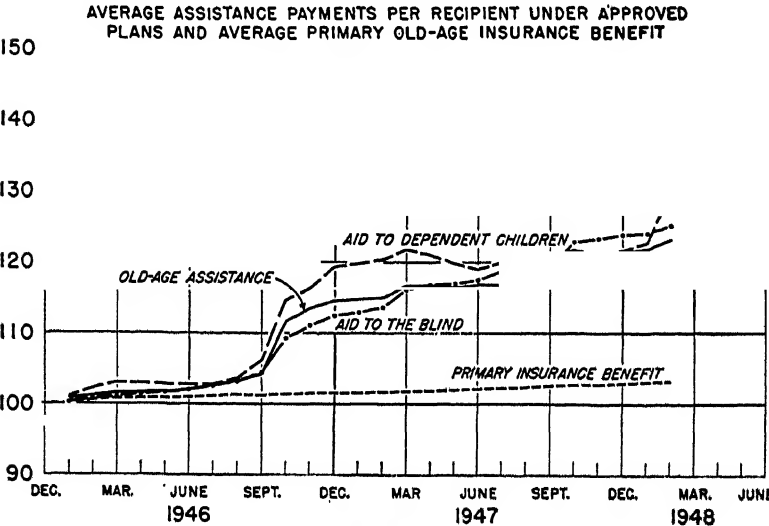
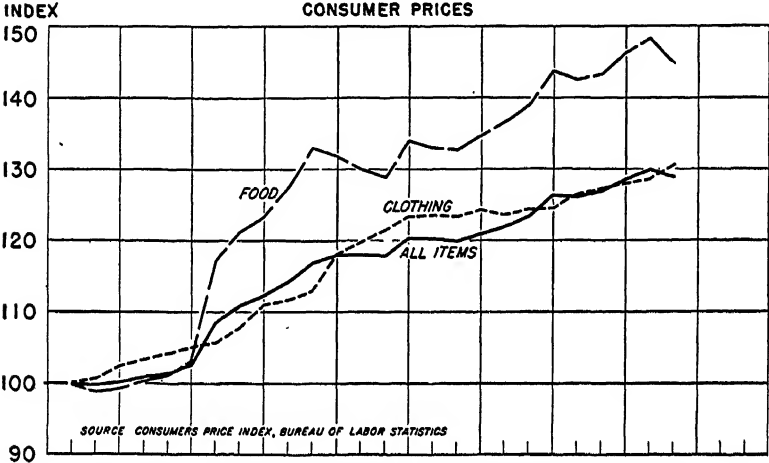


CHART 6.

insurance program in the world—Federal old age and survivors' insurance. Every state has an unemployment insurance law which has been in effect some 10 years. The public assistance, and maternal and child health and welfare programs of the Social Security Act are in operation throughout the country. Workmen's compensation exists now in every state in the union. Private employer, union, and consumer health and welfare plans have been increasing.

This mosaic of social security programs represents what is perhaps the most complex system in effect in any country in the world. The explanation for this fact undoubtedly is due to the complexity of our economy and the piecemeal way in which we have allowed our social security program to grow. Yet, we must recognize the result is intentional; a uniform single, simple social security plan for the entire nation covering all risks from the cradle to the grave has never been recommended by any responsible person or group. It has been recognized that the American scene requires a bundle of programs to carry out the purposes of social security and that these programs must be individual and group, private and public, all fitted together to meet a multitude of needs.

There is general recognition, however, that our present programs are inadequate and need improvement. The coverage and the benefits of existing programs must be expanded and liberalized. Although there is general agreement with this objective, innumerable specific problems are involved in determining how such extension of coverage can be achieved and to what extent the benefits can be liberalized. Some persons and groups have suggested radical departures in the methods of financing and administering old age benefits. On the other hand, there has been very strong advocacy for continuation of the existing administrative structure and relationships in the field of unemployment insurance in opposition to various proposals for basic changes in the unemployment insurance program. This chapter contains selections dealing with these suggestions in the hope that they will offer a basis for further consideration of changes in our present programs.

In the conflict of ideas which takes place in the intellectual market place, extreme statements by proponents and opponents of particular plans or proposals are frequently found. It is necessary therefore to weigh very carefully the validity of the arguments that are used and the relevancy of the information brought to bear in support or in opposition of any particular point. A critical mind supplied with adequate information is essential for the appraisal and criticism of existing and proposed programs and the formulation of revised and expanded programs adjusted to changing economic and social needs.

To approach the problems of social security solely through intellectual means and factual information, however, is not sufficient. Social security, although it has many aspects and ramifications, has basically a social purpose, and consequently social objectives must be kept foremost in mind in weighing economic, fiscal, and administrative implications of any proposal. In short, it is necessary to weigh many factors simultaneously when one evaluates any concrete proposal in the social security field.

The selections in this chapter for appraisal and criticism of existing and proposed social security programs are obviously incomplete, since a presentation of a full selection of readings that would take up all points of criticism would involve an entire volume in itself. In addition, the readings selected naturally tend toward those that are critical rather than those which stress the accomplishments and progress made under the existing laws and plans. By the very nature of social legislation there is always a need for improvement and adjustment to changing needs and circumstances.

Social security legislation, like all other legislation, cannot be evaluated apart from actual administration. It has been said that a bad law well administered can be of greater good and greater significance than a good law badly administered. The way in which social security laws are administered is as important as the provisions of the law itself. For instance, the maintenance of such intangible, but very real values, as the dignity



of the individual, incentive for employment and rehabilitation, encouragement of thrift, self-reliance, and initiative are the result of the interaction of both law and administration. It becomes more difficult, of course, to appraise and evaluate the intangibles. Here is where facts and figures by themselves are not always available, or when they are available, are the sole determinants of policy. In the last analysis, perhaps the intangible elements are the most real and the most important. Constant appraisal of all of these factors in social legislation is essential.

## *ANNUAL REPORT OF THE SOCIAL SECURITY ADMINISTRATION*

*Annual Report of the Social Security Administration, Federal Security Agency, 1947.*

THE Social Security Administration believes that systematic provisions for underwriting the basic minimum security and well-being of the men, women, and children of the Nation are an integral part of our democratic way of life and our free competitive economy. Social security is, in fact, the organized effort that the people make, acting through their government, to try to assure that every family has the goods and services necessary for decent living and receives these basic essentials in circumstances that preserve self-respect and opportunity for economic and social advancement. To the extent that a people have the confidence that springs from economic security and freedom of opportunity, the economic system is free to encourage experimentation, invention, improvement of technological processes, elimination of waste, and continued response to changing ideas and circumstances.

Our present provisions for social security in this country represent the adaptation of social institutions to the changes of a dynamic economy. The Social Security Act was a significant milestone in that development. Under it the Nation pledged itself to a concerted attack on problems recognized as transcending individual or community efforts at solution. It represented an extension of earlier legislative provisions enacted at different times in this country's history and dealing with different groups in the population.

The Social Security Act built on existing foundations, but it was not the finished structure. When the act became law it was hailed by President Roosevelt as "a cornerstone of a structure which is being built but is by no means complete." In the recommendations of the Committee on Economic Security, on which congressional consideration of provisions to be embodied in the act was based, the Committee emphasized the fact that their approach was "piecemeal" and "dictated by practical considerations." But, the Committee continued, "the broad objectives should never be forgotten. Whatever measures are deemed immediately expedient should be so designed that they can be embodied in the complete program which we must have ere long."

Throughout the ensuing decade, as experience in operating the programs was gained and as experimentation proved the basic soundness of those programs and showed also the areas where changes were necessary, progress toward a more complete program was made. The 1939 amendments materially strengthened the basic structure. The amendments of 1946 buttressed some minor points. Testimony at the congressional hearings that preceded the 1946 legislation indicated the widespread public realization of gaps and inadequacies in present coverage and benefits and overlappings in provisions for certain groups of the population. The limited character of the 1946 provisions and the need for fundamental review were stressed by both Houses of Congress when the amendments were passed. That need had previously been recognized by the adoption of a House resolution in March, 1945 authorizing the Committee on Ways and Means to obtain information "with respect to the need for the amendment and expansion of the Social Security Act." It was reaffirmed by Senate resolutions in both 1946 and 1947 that directed the Senate Committee on Finance to make a "full and complete study and investigation" of all aspects of social security.

The objective of a comprehensive program of social security is twofold. It should enable the great majority of all individuals and families to maintain their independence when they meet with the common economic hazards against which they have little or no individual defense. It should also assure that the services necessary for the health and welfare of the people of our country are available for their use.

In our contributory social insurance program we have a tested and successful system that can be used to compensate all the major risks of wage loss—sickness and extended disability, unemployment, old age, and death, as well as the costs of medical care. A comprehensive social insurance system would afford protection to all

to whom these risks apply. It would have the simplicity and economy attainable through use of a single set of records, a single contribution, and a single set of local offices to administer all types of cash benefits.

Our present system is incomplete in the coverage of both risks and persons. The type of risk against which a worker and his family are protected depends on whether the wage earner works in industrial and commercial employments covered by the Social Security Act; whether he is employed by a railroad, the Federal Government, a State or municipal government, or a nonprofit organization; or whether he works in agriculture or domestic service. If he is a veteran, he and his family receive payments and compensation under special legislative provisions. In some employments a wage earner has no insurance against wage loss; in some he is insured against two or three of the risks or against only one. Only railroad workers have comprehensive insurance against the major risks of wage loss due to sickness and extended disability, unemployment, old age, and death, but even they lack insurance against the costs of medical care.

Workmen's compensation for occupational accidents and diseases was the first public insurance program to be established in this country. Yet such disabilities are only a fraction of those that day by day take a heavy toll of the Nation's productive capacity. Compensation under public provisions for wage loss from prolonged nonoccupational disabilities is at present confined to veterans or to persons employed by the railroad industry or by government. Yet there are very few wage earners—even among those who have substantial protection against old-age insecurity and unemployment—who would not be reduced to dependency on relatives or public agencies if they met with a long period of incapacitating illness. Only railroad workers and employees in two States have social insurance protection against wage loss from temporary disability of nonoccupational origin. Undoubtedly the lack of protection against the risks of disability and the costs of medical care under our present social security program have been one of the reasons for the present widespread demand in various industries for the establishment of health and welfare funds.

In this respect the situation is analogous to that a few decades ago when the problem of the older worker came to the fore and various industrial concerns set up private pension plans for their aged workers. These plans were confined chiefly to the large companies in the heavy industries, and many of them had restrictive eligibility requirements, limiting protection to workers with long service in the individual company. In terms of effective coverage

of the wage-earning population and of adequate and assured protection to workers and their families, the plans proved that voluntary insurance alone cannot cope effectively and at minimum cost with the problem of providing basic protection to all workers. Once that basic protection is assured to substantially all persons to whom the risk applies, however, private plans and individual thrift can more surely build a supplementary protection for individual workers and their families.

In addition to present anomalies in the type of protection available to different occupational groups, the extent of protection for persons insured against similar risks also varies greatly. Under our present provisions, for example, it would be possible for an individual to work at some time during the course of his working life in jobs covered by Federal old-age and survivors insurance, the Railroad Retirement Act, the Civil Service Retirement Act, and the retirement plan of a State or locality. According to the length and timing of such employments, he might become eligible to receive retirement benefits under one or more or all of these plans. Another man, with similar earnings under several of the programs, may go through a working life without ever acquiring retirement rights under any. Conceivably the survivors of a worker who dies might be eligible for benefits under the Federal old-age and survivors insurance system as well as under a State workmen's compensation law and under general veterans' legislation. Another family, equally in need of income to replace the father's earnings, may have had no opportunity to gain protection under any of these programs. There are also anomalies under the various provisions for unemployment insurance.

These variations in protection are the result of the piecemeal development of legislative provisions rather than of any fundamental or logical difference among occupational groups of wage earners in the need for basic protection. In this country, as in all countries where social security measures of one kind or another have been adopted over a period of time, the development of an adequate system, without gaps and overlapping, is an evolutionary process. In this process, two fundamental principles are at work. One is universality of protection—in which the problem is one of making certain that there are no avoidable gaps and no undesirable overlapping. The other is adequacy of benefits, which includes not only the amounts payable under any one program and the proper relationships between the amounts and duration under several programs but also the simplicity and objectivity and certainty of their provision.

In a dynamic civilization, no particular set of provisions or

dollar amounts will ever present a permanent standard of adequacy. The Social Security Administration is especially concerned with the need for adjustment at the present time in benefit levels of all programs under the Social Security Act to keep pace in some measure with the rapid rise in living costs during the past year. The impact of that rise, perhaps most evident in the public assistance programs, has been felt in both the insurance programs but most acutely in old-age and survivors insurance, with its fixed statutory scale of benefits. This scale was adopted in 1939, and even if it was adequate in relation to 1939 conditions it is no longer adequate, either in terms of purchasing power or in terms of replacement of wages. The increase in the costs of goods and services has also affected the adequacy of programs providing health and welfare services to children and mothers.

The 1946 amendments to the public assistance provisions, for example, which provided for increase in Federal participation, enabled State public assistance agencies to raise the level of assistance payments. The increases in the maximum amounts in which the Federal Government will participate were not commensurate with the rise in living costs, however. The new maximum payments to an aged or a blind recipient in which the Federal Government will share represented an increase of about 12 percent over the previous maximums, which were established in the 1939 amendments. Yet from August, 1939 to July, 1946 the cost of food for families of moderate income living in large cities rose 77 percent, according to the consumers' price index of the Bureau of Labor Statistics. In the next 12 months, food costs rose another 15 percent. The increase in the Federal matching maximums for aid to dependent children was greater than in the other two programs, but it was far from equivalent to the rise in the cost of food alone since 1935, when the previous maximums in aid to dependent children were established.

During the war this country proved its amazing productive capacity by turning out half the war material with which the Allied Nations waged war on all fronts throughout the world. We are now producing at least one-third of the world's total output of goods, at an unprecedented level of civilian employment. The Social Security Administration believes that economic conditions at the present time offer an exceptional opportunity to develop a comprehensive program that will provide the basic essentials of social security for all persons in all parts of the Nation. In the stark urgency of the present world situation, the continuing existence of our free competitive economy and the ideals of democracy as an economic system as well as a system of government are facing

their most serious challenge. A positive and concerted attack on all areas of insecurity in this country is imperative, in the belief of the Administration, if we are to meet that challenge successfully.

### Summary of recommendations

*A comprehensive program of social security.* To accomplish this objective, the Administration believes that our present programs of social insurance should be broadened into a comprehensive basic national system of contributory insurance. With such a system the great majority of all families can maintain their economic independence when they meet with common hazards against which they have little or no individual defense. Even with complete coverage of risks and of population, however, there will always be some groups who will fail to qualify for insurance benefits and other groups who need a variety of services for which they turn to the public welfare agency. For these there should be comprehensive welfare programs, including public assistance and family and child welfare services. In addition to these provisions for safeguarding family income and family welfare, a comprehensive program of services for children should be developed, since the Nation's progress in coming decades will be shaped and determined by the children of this generation. The Social Security Administration therefore recommends the establishment of:

A COMPREHENSIVE BASIC NATIONAL SYSTEM OF CONTRIBUTORY SOCIAL INSURANCE. This basic program, covering all major risks to economic independence and all workers and their dependents threatened by such risks, would include insurance against wage loss in periods of disability and against costs of medical care, for which no general provision now exists in the United States, as well as old-age and survivors insurance and unemployment insurance. Cash benefits would be related to past earnings and additional benefits provided for dependents. The program would be designed to eliminate existing gaps in the coverage of both persons and risks, to remove present inequities in the protection of workers and their families and in the financial burdens of employers, and to provide a consistent relationship, not only among the insurance provisions for the various risks covered but also between the provisions of the basic system and those of supplementary special systems now in effect for particular groups. As compared with separate programs to meet particular risks, such a system would reduce administrative costs and reporting burdens and simplify arrangements as they affect workers, employers, and public agencies.

A COMPREHENSIVE PROGRAM OF PUBLIC WELFARE, INCLUDING PUB-

LIC ASSISTANCE AND FAMILY AND CHILD WELFARE SERVICES. Under this program, on a Federal-State basis, payments and services financed from Federal and State funds would be available to any needy person in the United States, irrespective of the reason for need or the place of residence. The Federal financial contribution to such a program should be designed to remove the great disparities now existing in the treatment of various classes of needy persons and to reduce the disparities in different parts of the country. It should also be designed to remove serious present inequities in the relative burdens borne by States and localities in financing public assistance.

The role of public welfare agencies should be strengthened by Federal participation on a State-wide and comprehensive basis in social services for all families and adults and children. Federal grants should be available likewise to assist the States in developing such services to families and individuals—whether self-supporting or not—who turn to the agencies for help in becoming self-supporting, in making use of community resources, and in solving individual problems in family or community adjustment.

A COMPREHENSIVE PROGRAM OF HEALTH AND WELFARE SERVICES FOR CHILDREN AND RESEARCH IN CHILD LIFE. Such a plan should provide for the progressive development of the full range of physical, mental, and social services of high quality required by mothers and children of this country wherever they live and whatever their income or race. Immediate attention should be given to the provision of programs of health, medical, and dental services for the child of school age—one of the most neglected areas of service. Research and investigation in child life are essential in supporting and guiding the development of these services and enriching our knowledge and understanding of the needs of children. Such research should approach the programs of child life from the point of view of the total child, his growth and development, and his place in society.

Legislative changes that would assist in the achievement of the objectives outlined above are discussed more fully in subsequent chapters. In brief, the recommendations include:

*Old-age and survivors insurance.* Coverage of all gainful workers, including agricultural and domestic employees, public employees and members of the armed forces, employees of non-profit organizations, railroad employees, and self-employed persons, including farmers and small businessmen.

Changes in the average monthly wage and benefit formula to increase benefit amounts, particularly to low-paid workers.

Increase in the maximum amount of earnings taxable and

counted in benefit computation, and expansion of the definition of taxable wages to include all tips, gratuities, and dismissal wages.

Increase in the amount of earnings a beneficiary may receive in covered employment without suspension of benefits.

Reduction of the qualifying age for all women beneficiaries from 65 to 60 years.

Greater uniformity in defining, for purposes of the insurance system, family relations and conditions of dependency that qualify members of an insured person's family for benefits.

Payment of a lump sum in the case of every deceased insured wage earner.

Payment of benefits during periods of extended or permanent total disability similar to those for old-age retirement.

Provisions for ensuring uniformity in coverage decisions relating to liability for contributions and eligibility for benefits, which are based on identical language in the Social Security Act and Internal Revenue Code but are made by two separate Federal agencies—the Bureau of Internal Revenue and the Social Security Administration.

Adoption of a long-range plan for financing old-age and survivors insurance which looks toward an eventual tripartite division of costs among employers, employees, and the Government.

*Unemployment insurance.* Extension of the Federal Unemployment Tax Act to all employers of one or more workers in covered industries and to many excepted employments.

Provision of unemployment benefits for employees of the Federal Government.

Provision of a maximum weekly benefit amount of at least \$25 for the wage earner with dependents, in the case of workers whose past earnings entitle them to the maximum.

Provision of as much as 26 weeks' duration of benefits for all workers eligible for benefits whose unemployment extends over so long a period.

Provision that disqualifications for voluntary leaving without good cause, discharge for misconduct, or refusal of suitable work should entail only postponement of benefits for not more than 4 weeks rather than cancellation of benefit rights or reduction of benefits.

Definition of good cause for voluntary leaving or for refusing suitable work to include good personal reasons, not merely causes attributable to the job or the employer.

Reduction in the Federal tax rate: if the credit-offset feature of the present tax is retained, reduction of the tax to 2 percent; under a grant-in-aid provision, substitution of a straight Federal



tax of 1 percent of covered pay rolls, from the proceeds of which Federal grants to the States would be made to share the costs of both benefits and administration.

Extending to the States the option of granting rate reductions to employers either through experience rating, State-wide reduction, or some other method.

Modification of the additional-credit provisions to reduce the contribution rate for new employers by permitting them to pay the State-wide average rate instead of 2.7 percent.

*Disability insurance.* Provisions for cash benefits to insured workers and their dependents during both temporary disability (less than 6 months) and extended disability (6 months and over).

*Medical care insurance.* Insurance against costs of medical care, including payments to physicians, dentists, nurses, hospitals, and laboratories, with provision for free choice of doctor and patient, decentralization of administration, and utilization of State administration.

*Public assistance and welfare services.* Special Federal aid to low-income States for assistance, administration, and welfare services to enable States with relatively low economic resources to develop adequate public welfare programs.

As a condition of Federal aid, State apportionment of Federal and State funds among the localities in accordance with their need for funds.

Removal of the Federal maximums limiting Federal participation in individual monthly payments for aid to dependent children and removal or increase of such maximums for old-age assistance and aid to the blind.

Federal grants to States for general assistance to any needy person, as well as for the three special types of assistance.

Extension of Federal participation in aid to dependent children to include participation in assistance to a parent, relative, or other person who assumes responsibility for the parental care and support of any needy child and who maintains a family home for the child; such payments should be made without regard to the cause of the child's need.

Withholding approval of any State plan under the Social Security Act that contains a residence or citizenship requirement as a condition of eligibility for assistance.

Prohibition, as a condition of Federal grants, of State requirements for transferring title or control of property of an applicant or recipient to the State or locality. This stipulation would not preclude any agency from claiming from the estate of a deceased recipient recovery of the assistance paid.

Federal participation in the costs of medical services made available to needy persons under State public assistance programs and in assistance payments to needy sick persons who reside in public or private medical institutions other than mental hospitals and tuberculosis sanatoria.

Federal financial participation in all types of welfare services administered by the staff of the public welfare agency to help families and individuals become self-supporting, make fuller use of community resources, or solve individual problems in family or community adjustments. Such services should be available, when requested, to recipients of assistance and to others not needing or requesting financial aid.

Explicit provision in the Federal act that a State, as a condition of plan approval, be required to define the standard of living to be afforded needy persons through assistance and their own resources, if any; to develop standards that will assure equitable treatment of needy persons throughout the State; and to consider, in determining the amount of assistance, only resources actually available to the individual.

Unification of the administration of State public assistance programs at both State and local levels as a condition of Federal grants.

Extension of Federal grants-in-aid for all assistance programs to Puerto Rico and the Virgin Islands.

*Children's services and research in child life.* Legislation and appropriations providing for the progressive development of State-wide programs at a rate consistent with availability of personnel and with facilities that meet standards established under State plans, for the purpose of assuring that child health and welfare services will be available as needed for all children in all political subdivisions of each State. Provision of such services without discrimination as to race, creed, nationality, residence, citizenship, or economic status.

Development within the health and welfare programs of measures necessary to assure that children in migrant families will receive the services they need.

Priority of attention to development of programs of health, medical, and dental services for children of school age.

Safeguarding the rights of parents and children to such services by requiring that State plans provide an opportunity for fair hearing before the State agency responsible for the program, whenever a claim for care or services under the plan is denied; and adequate restrictions on the use or disclosure of information concerning

persons applying for or receiving such services to purposes directly connected with the administration of such services.

Special provision of financial aid in the training of professional and technical personnel needed in making child health and welfare services available throughout the country.

Effective coordination of the health and welfare services for children with other health and welfare services.

Administration of the maternal and child health and crippled children's services by the same State health agency in each State by the end of a 5-year period.

Appointment by each State agency administering maternal and child health and crippled children's services of a general advisory council providing adequate representation of the public as well as of the professions.

More adequate financial implementation of the basic act of 1912 creating the U. S. Children's Bureau, to enable that Bureau to strengthen and broaden its work as a center of information related to children; to evaluate current research in the physical, biological, and social sciences that pertains to the growth and development, the health and well-being of children and young people; to assist in financing specific research projects by competent research authorities to fill in recognized gaps in these fields of research; and to undertake research and investigations that deal with the child as a whole or with specific problems that require Nation-wide study or that have Nation-wide significance to State and community health and welfare programs for children or mothers.

*Interrelationships of social insurance programs.* The Social Security Administration believes that a comprehensive program, based on a national system of contributory social insurance and supplemented by a Federal-State system of public health and welfare, is the most effective and economical method of providing the basic essentials of social security for all persons in all parts of the Nation. Covering under a single basic insurance system all the common risks that cause loss of earnings or burdensome sickness costs would make it possible not only to ensure well-rounded protection but also to establish the proper relationships between eligibility conditions, the amounts and duration of benefits, and financing of all the various programs. Moreover, with comprehensive coverage, the benefits paid would reflect more closely than at present the wage loss actually suffered, since the individual's earnings in any job he might have had would be counted in computing the benefits. Experience in the operation of old-age and survivors insurance, the most comprehensive single program of social insurance in this country, has clearly demonstrated the feasibility of

decentralized administration of a Federal program, which can give individualized services through local offices that become closely interwoven with the life of the local community. It is also possible and desirable to have advisory councils and appeals bodies in the various areas of operation. Such bodies would provide for appropriate representation of the general public, of the persons who contribute to the system, and of the professional interests of particular groups, such as the medical and related professions and the hospitals.

The Social Security Administration believes that a comprehensive social insurance system should be financed in part through a Government contribution as well as the contributions of employers and employees. A Government contribution for old-age and survivors insurance, if receipts from pay-roll taxes should become insufficient, is already authorized on the statute books. A three-way division of cost makes possible a fair assessment of the three types of responsibility inherent in social insurance—individual, industrial, and social. Since a very large proportion of the population would have protection under such a system, a Government contribution from general tax funds would be warranted. The stabilizing effects of a comprehensive and adequate system would be of importance even for persons who did not share in it directly, and public costs otherwise necessary for assistance would be gradually reduced as the insurance system took over responsibilities that must now be financed from general tax funds.

Costs of a comprehensive system of social insurance must be considered in relation to the costs that exist in its absence. Whether or not there is social insurance, substantially the same costs exist in the form of losses of earnings from sickness, disability, unemployment, old age, and death, and in medical bills. When social insurance is lacking, these charges appear in the costs borne by the unfortunate families concerned and by the public that also foots a considerable part of the bill for relief and public services, and in the loss of potential business and national income when many families are in economic distress. With social insurance, losses suffered by a part of the population are distributed over the entire population. The relatively small but regular amounts paid out in social insurance benefits have an importance far beyond their size, both for those who receive them and for the economy as a whole.

Whatever method is adopted for achieving a comprehensive social insurance system, the Social Security Administration believes that the employment security program should continue to be an integral part of a social insurance system. Only by such coordination of the entire field of social insurance can the social security

program make its maximum contribution to individual and family security as well as to the stability of business and the economy in general.

In the United States, as in other countries, various measures for economic security have been established at different times and for different groups in the population. A particular cause or the plight of a particular group gains public recognition and a law is passed. In time, several laws may deal with different parts of the same problem while other serious needs go without attention and other groups are left without protection. From the standpoint of the Nation as a whole, gaps and overlaps and serious differences in the protection available to different groups inevitably result. Then comes a period, such as most of the world's democracies have been facing in recent years, in which it is necessary to reexamine the whole series of measures relating to social security, to remove inequities, fill in gaps, extend and coordinate provisions that have proved useful, and thus to work out a program that will be safer, stronger, and more effective. After 12 years of operation under the Social Security Act, the Social Security Administration believes that this country now has the information and experience necessary to strengthen social insurance in the United States and to make it comprehensive and adequate.

Such a step probably would have seemed advisable in the ordinary course of the development of the social security program. Added reason for action now is given by problems that have been intensified by the war and by the Nation's determination to secure continuing economic well-being in peace.

### *WHAT ROAD IS FORWARD IN SOCIAL SECURITY?*

E. Brandeis, in *Problems of the Postwar World*, edited by T. C. T. McCormick. New York: McGraw-Hill Book Company, Inc., 1945.

THE extension of social security in the United States, as well as elsewhere, is a postwar aim on which virtually all shades of opinion can agree. But on the amount and more especially the character of that extension there is plenty of room for argument. For it is by no means self-evident what road is forward in social security. Where can we find a map that will help us to the right road?

Such a map must be based on a theory of social security, a decision as to the role social security should play in the postwar political and economic order. In the political realm we all share a deep desire to preserve and strengthen the democratic character of our government. In the economic realm most of us accept, if we do not seek, a "mixed" system or a partnership between government and private enterprise in operating the economy. Further, we can all agree that social security, because of its size and its nature, is bound to be an important factor in determining the character of our government, especially its relation to its partner, private enterprise.

On these common assumptions have been built, it seems to me, two fundamentally different theories of social security, two different concepts of the role it can and should play. To distinguish between these theories I shall use two terms not commonly found in discussions of this subject. The first I shall call the distributional approach to social security; the second, the functional approach.

*The distributional approach.* The distributional approach is rather simple and clear-cut in its view of the economic world and the role of a social security system. It sees a mixed economy as made up of two parts: the one operated by private enterprise, the other by government. According to this view government's chief job is to do the things that private enterprise for one reason or another fails to do. It must *supplement* private activity wherever such supplementing is needed. Of course, government should also *regulate* the private segment of the economy. But that is seen as nothing new or especially important. Government has been regulating private enterprise for a long time now and with indifferent success. Private enterprise seems to be governed by the rules of its own nature and probably cannot be changed very much by government action. So we ought not expect too much from government regulation but must in future rely more on government supplementation. Government should be used to fill the gaps that private enterprise leaves. Here is where social security comes in. Socially provided income is needed to fill a very big gap. For a variety of reasons, many people fail to receive regular income from private enterprise. When privately provided income fails, governmentally provided income should be available. This substitute income will be derived from taxes (or government borrowing). In other words, social security is simply government action to effect a redistribution of income. Government takes as much of the national income as is needed for this purpose and distributes it so as to provide a minimum income for all.

The criteria of a social security system, then, are its success in

reaching everyone who needs socially provided income and the adequacy of the substitute income it provides. The source of the funds it uses are not really its problem, but a problem in taxation, or perhaps in fiscal policy. I have called this the distributional approach to social security because it sees social security as little beyond a mechanism for redistributing part of the national income.

*The functional approach.* In contrast to the distributional approach stands the functional approach to social security. It is less simple and clear-cut, because it sees social security with a far more complex role to play. To begin with, the functional approach sees government *regulation* in a mixed system as just as important as government *supplementation*. Moreover, it sees the two functions as inextricably intertwined. When government supplements private enterprise in one way or another, it is bound to have a regulatory effect—for good or for ill. Thus, to cite a very obvious example, the Tennessee Valley Authority (TVA) “regulates” the price of electricity sold by private power companies as surely as does rate fixing by public service commissions. The functional approach also sees that government regulation of private enterprise is of two kinds. It can be negative—merely seeking to repress antisocial conduct in private business. Or it can be positive, promoting and inducing the operation of private enterprise in the social interest.

So much for the general role of government in a mixed system. Social security will constitute a big segment of that role in the future and is bound to operate powerfully, not only to supplement private enterprise but to regulate it as well. A program so large in money spent and so vitally affecting so many people, cannot be divorced from the government or the economy of which it is inevitably a part. Rather it must be integrated into our political and economic order. It must be geared correctly into a going mechanism. In other words, we must be sure that it constitutes the kind of government and the kind of regulation of private enterprise we want.

So far as government is concerned, that means it must be shaped and run democratically. This may seem a point too obvious to be worth laboring over. But it is relevant to such questions as the current controversy over whether or not social security should be completely nationalized. Perhaps both as legislation and as administration, much of social security should stay on the state level in the interest of truly democratic government. Administration on a national basis is especially difficult. Back of all the can't phrases about bureaucracy lies a very fundamental problem. Administration is a newcomer as a branch of government. Over a long period we learned how to perform legislative, executive, and judicial func-

tions *democratically*. Techniques for the democratization of administration are by no means fully developed. In building our social security system, one of our largest administrative undertakings, we must take pains to use such techniques of democratic operation as are known and to continue our search for new ones. It seems fairly clear that state-sized units can use these techniques more readily.

As for social security as *regulation* of private enterprise, the functional approach assumes that good regulation in this field will be positive as well as negative. Specifically, many social security programs (though obviously not all) can and should be so devised that they will create maximum effort to reduce the economic risks that make these programs necessary. For obviously a chance to earn income by functioning as an active member of the economy is better than socially provided income, however generous. So the functional approach gives social security two objectives: to fill a gap left by private enterprise and, wherever possible, to help reduce the size of the gap. It follows that social security programs must be differentiated on the basis of the risk against which each is directed. Sickness and unemployment, for example, are two very different risks; methods of preventing them are entirely different. All this makes for a complicated, pluralistic social security system, rather than the single, all-embracing system which the distributional approach suggests.

What do these general theories mean when translated into concrete social security systems? Can one tell the distributional and the functional theory apart in actual programs for collecting money and paying out benefits? I believe one can.

### **The Beveridge plan exemplifies the distributional approach**

The Beveridge plan represents the distributional theory of social security. A friendly critic, Eveline Burns, has pointed out that "the Plan is fundamentally a redistribution of income both within and between social classes." Sir William Beveridge has also stated it rather explicitly. He calls "abolition of want" after the war the aim of his "Plan for Social Security" and declares that it can be achieved "by a double redistribution of income through social insurance and children's allowances" (the latter to supplement the earnings of employed workers).

The Beveridge plan calls for a unified and uniform social security system. Those whose private incomes fail are all to be entitled to the same benefits, without regard to the reason for that failure or to any differences in previous earnings. Benefits are to vary only with the size of the family receiving them, i.e., with pre-



sumed difference in needs. This is entirely logical according to the distributional theory, with its single aim to provide a subsistence minimum as a substitute income for all who fail temporarily or permanently to earn an income in the privately operated segment of the mixed system. With minor exceptions, all benefits are made uniform in amount (varying only with sex and age) and unlimited in duration, i.e., they are to last as long as private income is lacking. Complementing the benefit program, children's allowances offer socially provided income for all children beyond the first in the family, even while private income is being earned.

The costs of the program are to be distributed as widely as possible, roughly half to come from general taxes, the other half from employer and employee contributions, each making a single contribution to cover all social security programs. Workers are to contribute at a uniform rate, their contributions to vary only with their age and sex. Employers also are to contribute at a uniform rate, based on the number, age, and sex of their employees. There will be no variation in contributions of workers on the basis of their earnings, or of employers on the basis of the risks in their different industries or plants. In short, the contributions from employers and workers are merely a convenient form of tax, a survival of an earlier method of financing, or at most a way to make both groups realize that they are helping finance the social security system. (It may be noted that the failure to base the worker's contribution on his earnings obviously makes his contribution a definitely regressive tax and subject to criticism as such.)

In contrast to American experience of the last decade and to most American programs for the future, the Beveridge plan relies almost entirely on one kind of socially provided income, namely, social insurance, or cash benefits paid as a matter of right. The two other alternatives—public assistance paid on a needs basis or wages paid for public work—are virtually disregarded, though it is admitted that a small amount of assistance on a needs basis may be unavoidable to provide for those who cannot be covered by social insurance. Finally, comprehensive social insurance is to be supplemented under the Beveridge plan by a complete and unlimited system of public medicine.

Uniformity as the keynote of a social security system is far more possible in Great Britain than it would be in the United States. Great Britain is a small country and relatively homogeneous. Therefore a national system paying uniform benefits is much more suitable there than it would be here. But basically the uniformity, simplicity, and universality of the Beveridge plan reflect the distributional approach to social security, which sees it with just one

job to do—income maintenance. Social security should hew to the line, let the chips fall where they may. It is noteworthy that the plan virtually ignores industry or private enterprise. According to Sir William, "Social security must be achieved by cooperation between the State and the individual." Cooperation with industry is scarcely mentioned. Industry and social security have no responsibilities toward each other. They constitute separate worlds. Sir William, I believe, sees social security as the outgrowth or moderate counterpart of the Elizabethan poor law, better administered and far more humane, but equally divorced from the going economic system.

Of course, Sir William recognizes that his plan is not all that is needed for postwar Great Britain. The government must act in many other ways to secure "full employment," for example, by promoting export trade and industry generally. There is considerable question, however, whether or not he regards full employment as necessary to the successful operation of his social security program. At all events, he does not attempt to integrate the two or to appraise his social security proposals in the light of their effect on the functioning of private enterprise.

### Functional elements in American social security programs

Regardless of the merits of the Beveridge plan, everyone, I believe, recognizes that it would not fit the American scene. I have discussed it only because it so clearly exemplifies one approach to social security. Existing programs in the United States and most American proposals for the future are far less clear-cut in their philosophy or its application. On the whole I believe we have been closer to the functional approach and I hope we shall continue to follow that line.

*Programs vary with the nature of the risk.* One functional element in the American social security system has been the different treatment accorded to different causes of insecurity, i.e., to the different reasons for social provision of income. As noted above mothers' pensions and workmen's accident compensation, our first social security programs, represented two very different ways of providing substitute income when private income failed. They typify, I believe, the two categories into which social security programs can properly be divided.

The causes of insecurity, or the reasons for resort to socially provided income, fall into two general classes: (1) industrial reasons—i.e., reasons connected with employment and (2) personal or non-industrial reasons, i.e., reasons not connected with employment.

Whether or not we have always been conscious of the inherent difference between these two categories, we have on the whole treated them differently. Personal causes of insecurity have mostly been treated through programs stemming from poor relief—representing a recognition of society's obligation and responsibility. Industrial causes have been treated through programs that were regarded as a branch of labor legislation. They represented recognition of an enlarged responsibility and obligation of the employer. This accounts for the fundamental differences in method of financing and in the basis on which benefit amounts were calculated and the rights to benefits were determined. In brief, society's obligation was to the needy in proportion to their need. The employer's obligation was to his employees who, when unable to work for a reason connected with employment, were entitled as an earned right to substitute income in proportion to their previous earnings.

*Programs have grown piecemeal.* In another respect the growth of social security in the United States has been functional in character. It has grown as and where needs were felt and translated into political action. Development has come step by step and state by state. Moreover programs have varied widely, as many experiments were tried and some abandoned. Of course, the severity of the depression immensely intensified need and accelerated the tempo of growth. Some of the resulting emergency programs were short lived, such as the Federal Emergency Relief Administration (FERA). Others like WPA continued even into the war boom. Passage of the Social Security Act in 1935 was evidence of widespread recognition that much need would be permanent. In turn, this Federal law exerted a powerful pressure on the states to take action.

The wide diversity in the programs set up during the thirties has been attacked as evidence of lack of coherence or consistency in social planning. It can be defended, at least in part, as attempts (no doubt imperfect) to meet varying needs with appropriately varying remedies. Proponents of a distributional approach to social security have been greatly concerned because relief payments, especially in some states, were so far below unemployment compensation benefits or WPA wages. From the functional point of view such differences were necessary and desirable. If social security is to function as part of a going economic system, not as an isolated refuge from that system, payments for work or benefits that constitute an earned right should be higher than relief payments.

Similarly from the distributional point of view, the wide difference between social security payments in the North and in the South are highly objectionable. However, it is noteworthy that this variation in security payments correlates closely with the variation

in per capita income and per capita wealth in different parts of the country. From the functional point of view we cannot afford to destroy this correlation. So long as we use private enterprise as a part of our mixed system, we cannot afford to destroy its basic motivations. Socially provided income must bear a relation to prevailing earnings. It cannot rise above them.

From the functional point of view, it is noteworthy that our social security system has been steadily improved. Each legislative year has brought small, state by state and step by step, gains in coverage, liberality of benefits, etc. Thus, though most of our accident compensation laws were passed more than 20 years ago, it is reported for 1943 that "of the 44 legislatures which met in regular session 39 materially strengthened their laws." Unemployment compensation statutes have been similarly amended over the much shorter period that they have been in the books. In a functional approach, progress is the aim rather than perfection.

## Conclusion

It should by now be fairly clear, where a functional approach to social security leads. Since, obviously, social security will be one of the major functions of government in the postwar years, it is highly important that it be operated as democratically as possible. That means—to put it briefly—with fullest participation by private citizens. This concern for citizen participation in social security planning and administration is pretty generally felt. Thus the report of the NRPB contains the following:

Enlistment of lay participation in policy formation and appropriate phases of administration is one of the surest means of tempering the rigidities of bureaucracy and educating citizens in regard to the character of the problems to be faced by policy-makers and administrators. But unfortunately the NRPB report does not recognize that this kind of democratic participation can be secured only if action both legislative and administrative is kept decentralized—is left largely to the states rather than carried on in Washington.

One of the best statements of this reason for retaining state action in social security was made a few years ago by the chairman of the Social Security Board. Arthur Altmeyer was formerly secretary of the Wisconsin Industrial Commission and as such worked with employers and labor in operating and strengthening the state's accident compensation law and in the early development of its unemployment compensation law. Though today he advocates national-

ization of most of social insurance, in 1940 he put the case for the Federal-state cooperation of the Social Security Act in these words:

. . . it is inconceivable that a law which affects so intimately the daily lives of our people could be administered from Washington. No law could be written which would take into full account the variation in the conditions and circumstances existing throughout this country. . . . The co-operative federal-state plan . . . not only allows for the enactment of laws adapted to the circumstances and prevailing public opinion in the various states, but also reduces the administration to a manageable scope. It permits of closer contacts between the responsible administrators and the persons and groups affected. . . .

Second, as to the relation of social security to the going economy. The functional approach distinguishes between insecurity due to personal causes and insecurity that arises from the way the economy operates. It makes this distinction because it believes that social security programs affecting the latter can, through allocation of their costs, serve to improve the way the economic system functions. Or, to put it another way, they can help to provide security through jobs rather than through benefits. For the functional approach regards much of what is called social security as a necessary evil, a palliative, not a cure, for economic ills. It does not take too seriously the old fear that this kind of government protection may demoralize the workers. But it recognizes that social security does have its dangers. Social security may demoralize not so much the workers as statesmen, business leaders, and the public generally.

Americans have recently discovered (as did the Romans before them) how easy it is to provide "bread and circuses" for the populace. But bread and circuses are not enough for the citizens of a democracy. Even as an economic goal, security is not enough. For freedom from want is a passive, not an active freedom. Unemployment compensation, even unlimited in duration, is a poor substitute for the homestead Uncle Sam used to offer. At best, social action to take care of the individual is inferior to opportunity for that individual to take care of himself. As Justice Holmes once said, "To live is to function; I know no other meaning." Our real goal, then, must be not cradle-to-grave security, but opportunity for all of us to function as full members of society, as active participants in our economy and in our government.

*BUDGETING FOR SOCIAL SECURITY*

W. R. Williamson, *Journal of Gerontology*, January, 1946.

**B**UDGETING for social security is a realistic, accounting-minded, responsible tool for society to use. It is an attempt to force a choice between certain benefits, and by certain allocation of our funds to see that those choices become actually effective. It attempts to count the cost, but to secure promptly the benefit of a budgeting process.

Personal budgeting takes account of stock. A man in a low-earning bracket has no right to live as though he were in a high-earning bracket. As Micawber outlined budgeting, it really involves having a margin of income over outgo. It calls for a tough-mindedness in this world of so wide a range of personal satisfactions. Only the very wealthy can have them all. If we are basically honest, the rest of us must fit our expenditure pattern to our income. We must recognize the possibility of certain types of contingency, and we must allocate some of our funds to these contingencies, as well as to the current satisfactions. Many a person has found great satisfaction in making these choices and year-by-year consistently following his own plan. The man with the \$2,000 income who lives as though he had a \$5,000 income is headed for trouble. He may become actually dishonest. He may engage in sharp practices. He may go bankrupt. Particularly for the low income person budgeting is imperative. Moreover, frequently adequate consideration of his limited choice among goods and services stimulates him to higher earning power, so that he may have a larger share of current satisfactions.

Employers organize welfare plans for their employees. They try to grasp their financial significance. When they establish life, disability, or retirement plans, they think in terms of a balance sheet.

Similarly, when Government assumes the responsibility of guiding its citizens into a self-respecting social security program, Government must budget for that program. It must study seriously the potential immediate and deferred costs. It must acquire full familiarity with the financial relations entailed. Budgeting for social security assumes the purpose of paying benefits to those categories of persons having presumptive needs.

The rest of this discussion is largely limited to budgeting for those three catastrophic situations of:

- (1) Jobless old age;
- (2) Long-duration disability;
- (3) Orphaned childhood and widowed motherhood.

It does not deny the potential wisdom of other fields, but it prefers to consider these more catastrophic situations alone. Social security must inevitably fit the country which adopts it. Programs of certain European nations have been in harmony with the extreme emphasis upon the over-all authority of the State. In the United States, where the pioneering spirit still remains, there is a vitality in engineering direction, a vigor in management policy which teams up social security with other security measures. These together can be tabulated as:

(1) Social security arrangements for floors of protection, financed by the working citizens of the Nation;

(2) Employer and Mutual Benefit Association plans for group handling of life insurance, disability insurance, and group annuity contracts (such plans representing the ability of leading employers of America to supplement base wages by furnishing a framework for, and a contribution toward, benefits in addition to the governmental floor);

(3) The natural personal provision of individual thrift and voluntary insurance not tied in with employment by a common employer, not limited to a lowest common denominator of benefits administered by Government, but providing a range and scope of action to its citizens, dominated by a strong sense of personal responsibility and evidencing a real effectiveness in handling personal problems.

Thus, social security plans for America should require a smaller proportion of the national income than in the historically important plans of the Central European governments. Because the individual capacities of the American citizens and the national resources are both at a high level, most American citizens wish to meet their own major responsibilities themselves. There are other reasons why benefits should be kept low. Most benefits are payable because of unemployment. Unemployment is a catastrophic situation. When benefits for the catastrophic situation are too high, men seem tempted into the catastrophe. The administration of invalidity insurance in Germany illustrates the abuses following from too high benefit levels and conditions not conducive to high employment. We should avoid the less desirable features of Germany's experience.

The Central European programs, with their overemphasis upon the power of the State, tended to absorb too much of the properly

complementary plans of employers and individuals. They tended to determine benefits by earnings class and to develop a rather stratified system. It would seem more in accordance with our democratic tradition to provide the same cash benefits for all and to recognize that the capacity to earn higher wages also means a capacity to develop more personal provisions for oneself. The wider range of non-governmental facilities in the United States presumably results in reducing the extent to which Government must function.

The backgrounds to social security are numerous. Since so many different agencies give benefits in both actual and presumptive need, social security is bound to be explained in terms of relief, of insurance, of savings and investment, of family solidarity, of tax policy, of employer-employee relations, in terms of Federal-State relations. We even find explanation in terms of employer-pension programs. It is well to understand the functions which each of these organizations has in common with social security. It is equally important that the recognition of certain common values should not lead to a mental transfer of functions and qualities truly belonging to one agency over to social security where they are not necessarily appropriate. Social security is not essentially savings. It is not a structure of relief. It does not carry the elements of vested right so important to many a pension plan. It is closer to assessment insurance. It is perhaps only satisfactory on a truly current-cost basis.

Current cost is sometimes used in a positive, sometimes in a negative sense. In this discussion it is used in a positive sense. It refers to the current assumption of costs involved in providing a floor of protection for all current beneficiaries. It should not be a form of denial of current benefits to today's beneficiaries, while implying that posterity will provide full protection for the beneficiaries of its time.

Properly budgeted, social security requires neither open, nor veiled subsidies. Our civic consciousness strongly requires a current sense of footing the bill for today's social security as it does in connection with schools and roads and public buildings. The old New England town meeting made no attempt to hide the basic aggregate of governmental costs. It attempted to make a fair allocation of these costs among all the taxpayers of the community, and to arrange that if a person seemed temporarily unable to meet his share of the cost in cash that he should work out his taxes on the road, or in some other community responsibility. In modern America, with its nominally voluntary contributions to Community Chests, the Red Cross, Federal bond purchase, etc., we emphasize the priv-



ilege we have of making contributions on behalf of the common welfare.

In the use of pay-roll deduction as a method of paying Federal income taxes, of meeting the purchase price of Federal bonds, of contributing as employees toward pension plans and insurance, we have an effective budgeting technique. Having determined to meet certain bills, we get cooperation from the employer in collecting the funds for the payment of these bills at the source. That technique is available for special earmarked taxes for social security in respect to the large majority of the working citizens of America. Those in self-employment may accept the slightly greater responsibility of paying their own social security taxes without pay-roll deduction. It goes with the extra privilege of self-employment, as against working for someone else.

While New Zealand has used a uniform percentage against pay-roll and other income without any such maximum as our \$3,000, and beyond that collects largely from general taxation, the meeting of the costs of the three major catastrophic needs seem best handled by a single uniform percentage tax upon the citizen for the first \$3,000, or the first \$5,000 of earnings. Great Britain has stressed a flat contribution rate against all citizens, and then determines it so low that two subsidies are required, one from the employer, one from the Exchequer. The basic flat contribution is expected to meet only one-fourth of the cost. Provided we escape the awkwardness of the limitation of the flat dollar contribution, there seems no sound reason for taxing the employer. When he is generally taxed, the tax can be explained as a basic increase in wage. In such a case, the worker should have the privilege of claiming that he personally pays the tax from his adjusted wage. The tripartite contribution, with its two subsidies, as in England, created the psychologically bad slogan "a shilling for thruppence." We have said that social security is not savings. It is well to admit that it can come to serve part of the purposes of savings. If the program is sufficiently rational, it will have great powers of persistence. Citizens will come to count upon its availability in the event of potential catastrophe. It is still well to maintain the current benefit viewpoint; to recognize that the only way the contributors will get "their money's worth" is to develop so equitable a program for today that future taxpayers will be ready to continue it in operation. There is a sound suspicion against a perpetuity—today's lawmakers should not be able to force today's remedies into use against the maladies of tomorrow.

This discussion is an emphasis upon the wisdom of budgeting for the responsibilities which we understand, and of budgeting to

meet today's necessities rather than tomorrow's. If we claim credit for certain guidance to posterity, it is well to follow that guidance ourselves in connection with today's problems. This effectiveness alone is social budgeting.

### Specific budgets for the three catastrophes

1. *Jobless old age.* In 1945 we have ten million individuals aged 65 and over within the continental limits of the United States. By the end of the century we expect to have twice this number. In the OASI program, mainly outlining the benefits of tomorrow, 65 is the youngest age at which an old-age benefit may become payable. The simple qualifications for an old-age grant in our budgeting program might be:

- (a) The attainment of age 65;
- (b) The absence of gainful employment;
- (c) Being the non-working wife of a non-working employee.

The absence of gainful employment is sometimes admitted as indicated by a current monthly income from wages or salary of less than \$25. The Bureau of the Census, in its inquiries of 1940 and in its periodic reports on the extent of the labor force, has led to the belief that there are 6,500,000 persons aged 65 and over who are neither gainfully employed, nor the wives of those gainfully employed. This brings in two viewpoints:

- (a) That the wife is normally supported by her husband;
- (b) That she must also be at least age 65 to qualify for benefits.

Our information as to the rates of pay among many of these older persons at work is slight. Our information as to the permanence of their employment is also largely missing. We are dealing with the situation following the successive catastrophes of a major depression, a critical recession, the calamity of the war. Our figures in this report are largely illustrative. They merely help to give a sense of balance between a national working force of from fifty-five million to sixty-five million persons and three classes of non-working individuals. Perhaps the number of potential aged beneficiaries may lie between six million and seven million persons per year. The recommendation of this paper as to the level of benefits in old age is to adopt the payment of \$25 per month per person, or \$300 per year. This would give \$50 a month for an aged couple where both lives are aged sixty-five or over.

In spite of the dislocations of the war, in spite of the fact that most of us giving consideration to these subjects live in big cities and under urban conditions, it can be said that \$300 a year is not

far from the national average being paid under old-age assistance, where a certain tendency is developing to keep the benefits in one State as high as the benefits in another State. Further, the \$300 is not offered as a subsistence level of support, but rather as a floor of protection which seems to be a little high in Southern and even in Northern rural locations. Urban dwellers not only have higher living costs, but also much better facilities for savings than do rural residents. The virtual universality of pay-roll deductions for bond purchases has resulted in a major part of the community achieving a new personal provision for future needs. It has in advance reinforced any social budgeting program developed. Moreover corporations or employers increasingly carry group insurance, or salary allotment programs.

The \$300 yearly benefit represents 15 percent of what has recently been about the average per capita earnings of about \$2,000. On a somewhat traditional assumption of  $1\frac{1}{2}$  dependents—a little high now—the \$2,000 earned income would represent an \$800 per capita income. Three hundred dollars out of \$800 is probably a fair recognition of the part of the national income representing minimum subsistence in a national budgeting program. For six or seven million aged beneficiaries the annual budget might respectively be \$1,800 million, or \$2,100 million. This against a national taxable wage bill of perhaps \$100 billion (a reduction from the war level) would run about 2 percent; while a drastic further cut of one-third in the national wage bill might increase the relation of benefits to wages to as much as 3 percent.

Looking forward toward the end of the century, with double the number of persons aged 65 and over, there can either be an increase in the proportion lacking work, a maintenance of the proportion lacking work, or a decrease in the proportion lacking work. Moreover, over the years, the wage bill is very apt to climb so that benefit levels may be advanced in accordance therewith. It is possible that in spite of the larger base against which to measure the benefits, the impact of meeting the cost might rise to as much as 3 percent or 4 percent by the end of the century.

While these are tremendous sums in the aggregate, our recent familiarity with the much more tremendous sums involved in the war keep these amounts from seeming of considerable relative magnitude. Moreover, thoughtful pension proposals under consideration by employers involve annual expenditures ranging from 10 percent to 15 percent of the individual pay-roll. Percentages ranging from 2 percent to 4 percent are, therefore, relatively modest.

It is the old-age portion of these social security measures which has particular significance in our psychological attitude toward the

aging process. Pension plans developed by the employers have perhaps, on the whole, been directed more toward the function of house-cleaning for the advantage of the employer than toward the important psychological values to the aging employee himself. Men must, after retirement, have significant employments of some sort. A social security program emphasizing the granting of benefits in the absence of any paying job has a quite different viewpoint from pension benefits paid a man as a deferred wage available at the time of the loss of a particular job. If we reach a capacity for wiser use of our manpower at advanced ages in the absence of disability, and if we maintain the limitation that only the jobless receive benefits, we may find a further credit in costs. If the more awkward viewpoint sometimes voiced by organized labor that the competition for jobs must be reduced by eliminating the older man from the labor market, and if technological unemployment grows, costs could be even higher than 4 percent.

Changes in population, changes in community attitudes, changes in technology, changes in migration are all component elements in the trends of future outlay under social budgeting. They are also present in any social security program for the aged, including those starting with very small benefit payments. Social budgeting minimizes the rate of growth by adopting the payment of more initial benefits and possibly through this practical arrangement discarding such devices as the rate of increase of 1 percent a year of contribution now utilized in old-age and survivors insurance. This OASI program bids fair to go to twenty to thirty times today's expenditures, while under social budgeting it might only go to twice its initial expenditures.

Canada is considering a slight variation from this social budgeting method in determining age pensions of \$30 a month for all aged 70 or over, with benefits on the basis of a needs test as assistance for those aged 65 to 69. The majority of men and women aged 70 and over are already through work, so that the addition of those who have not terminated work might increase the beneficiary list by 15 percent to 25 percent. By adopting this simplification, we would save the psychological problem sometimes presented when we seem to deny the citizens the right to work by shutting off their benefits when they go back to work. There could well be an advantage in using as the criterion for benefits presumptive old-age retirement and paying benefits to every aged person, encouraging to the maximum the continuation of work relationships as long as possible. By setting the age at 70 rather than 65 there is a more rational relation between the presumptive working life and the presumptive period of retirement.

It would even be sensible to choose between two further alternatives:

(a) That from 65 to 69 the criterion for benefits would be unemployment; while under 65 it would be invalidity, or inability to work;

(b) That under 70 benefits would be payable only for invalidity, or presumptive inability to work.

I should much prefer old-age benefits tied in with the age of 70, because this seems to me a more constructive approach to the potential age at which most people have outgrown their working usefulness.

2. *Invalidity or long-duration disability.* With such a presumptive minimum age for old-age retirement as 65 or 70, we need a reinforcing benefits status for persons who find themselves out of work over rather extended periods of disability below these advanced ages. In the German social security program, with its benefits under age 65 because of invalidity, we found, in the period between the wars, a majority of the workingmen at ages 63 and 64 already out of work. As has been earlier mentioned in this report, many of the German benefits were relatively high. It is also to be noted that employment conditions were unsatisfactory. It seems probable that the German experience represents an abuse rather than a valid use of the system.

Considerable damage has been done to many individuals through the choice of the phrase "permanent total disability" with its insistence that men and women to get benefits must not only show an almost complete inability to work today, but that presumption must be against any future possibility to return to work. This view is at variance with our experience with the natural curative process of the human body. The operation of this system may well have been most anti-social in discouraging the return of many such persons to a state of well-being and full employment. In a long-duration disability program today, it is desirable to recognize that there are many persons for whom temporary disability benefits become exhausted at the end of six months or one year, without adequate recovery having taken place; but that in many instances another six months or a year would be sufficient for convalescence and return to an active way of life.

By fixing benefits at the same low level of \$25 a month per adult so that the disabled worker, the disabled housewife, or the attendant wife of the disabled worker were all regarded as beneficiaries, we might find at any time individuals still disabled after

one year, or the wives of such persons, between the numbers of two and one-half million and four million individuals.

This would involve a budget of \$750 million or \$1,200 million; while, over time, with the growth in population, increasing capacity to deal with these situations might cut the beneficiary list, or increasing use of the system might increase it. Careful administration might hold the relationship of benefits to taxed pay roll down to 1 percent to 2 percent of such pay roll. It might increase it as much as 3 percent or 4 percent under unsatisfactory administrative methods.

This benefit is probably the least dependable, the least measurable in the social security area, and one dealing with an extremely important social need. It is brought into highlight by the national responsibility to the veterans, not merely for payments during the period of invalidity, but for sound measures of rehabilitation.

Experiences both with veterans and with civilians show that rehabilitation has a much better chance of success before disability has continued for a very long period. Those relatively recent victims of workmen's compensation accidents, whose skills have not gone too long unused, have responded more satisfactorily to training and such special efforts to adapt work to their handicaps than have the veterans of World War I after long periods in veterans' homes without opportunity for customary jobs.

Such a current budgeting approach in dealing with invalidity should have a preventive aspect—keeping men from becoming chronic recipients of such benefits.

3. *Orphaned children and their widowed mothers.* Men may grow old and lose employment. They may become disabled and remain disabled for a long period of time. Men may also die. The current OASI program has provided that when an insured employee dies, leaving orphaned children under the age of 18, that such orphan children and their qualifying mothers are to receive benefit payments until the insured child reaches the age of 18, or after the age of 16 leaves school and goes to work. The 2.5 to 3 million paternal orphans under the age of 18 seem not apt to increase very much in number. The pronounced improvement in the death rates of young fathers is expected to improve still further. Most demographers and vital statisticians anticipate a shrinkage rather than a growth in family size.

Cost analysis as to the aged and the long-duration disabled persons has used \$25 a month per person. We will use the same basis for each child and for the widowed mothers of these children who may number one million. It seems possible that since the younger children require less in the line of clothing and space

accommodation in the home that \$15 a month for children under six, \$20 a month for children from 6 to 12 might be relatively in line with \$25 a month for children over 12. The age distribution of the orphans shows a majority in the higher ages because mortality rates of young fathers of young children are much lower than the mortality rates of middle-aged fathers of older children; so the over-statement of cost with respect to the younger children will not be very pronounced. Three and one-half million children and mothers at \$300 each, calls for an annual outlay approximating one billion dollars. Four million children and mothers would require about one and one-quarter billion dollars.

This is very crudely 1 percent of the national wage and salary bill of 100 billions.

Advancing living costs will probably be balanced in the future by advancing earnings. It is the goal of many educators to extend the period of training of the child. If, for example, education ran to age 20, instead of to age 18, the addition of the orphans would be at those ages where there are the most. Even though benefits advanced to \$2 billion, the ratio to an expanded wage and salary bill would still seem to leave benefits not over 1½ percent of pay roll.

The social justification for the reduction of a relief attitude in dealing with old-age benefits is even more important in dealing with children's benefits. So far as it is humanly possible to do so, it is desirable to have the children feel that they are receiving their benefits as a pooled provision, as in the case of benefits developed through the use of life insurance.

Summarizing the three programs, we may be dealing with an impact of cost today of from 4 percent to 6 percent, with a budget by the end of the century of from 7 percent to 10 percent. This is a much sounder balance than to establish benefit programs today of such small over-all magnitude that we anticipate the benefits for the next generation to be twenty to thirty times as large. Today under the combination of assistance and insurance programs, the major group of beneficiaries receives their grants as relief or charity. We have created a competition in the amounts of such benefits so that there is a demand for liberalization in both relief and insurance, and the aggregate cost is already much larger than the cost of the insurance benefits alone.

Budgeting for social security requires intelligent review before presentation of the program to a Congressional Special Committee or Congress itself. It requires the sort of balanced study which preceded the Beveridge Report in Great Britain, with an opportunity for all important elements of the population to be heard. It would

seem desirable to aim at a changed benefit structure with perhaps two years of opportunity to get our national records and our national economy into shape. Age is an extremely important factor for both the benefits to the aged and the benefits to the orphan children. All prospective beneficiaries should have a chance to secure the best possible evidence of date of birth.

Budgeting for social security is a crude over-all arrangement for a floor of protection only. It is designed neither to furnish a comfortable living, nor to meet every situation, even for a minimum required by individual need. Instead it will be buttressed by group methods of planned cooperation, such as group insurance and retirement plans, and by all the individual forms of thrift. It will also be reinforced for cases of particularly high living costs, or particularly serious needs by assistance, relief, and organized charity. It should, however, make unnecessary any relief supplementation for the large majority of beneficiaries and should serve to stimulate the group and individual programs which have been so prominent in the civilized development of America.

## CONCLUSIONS FROM EXPERIENCE

Lewis Meriam, *Relief and Social Security*, Chapter XXXVII.  
Washington: The Brookings Institution, 1946.

A PERSON should not be defined as being in need if he himself or a relative normally responsible for him has sufficient resources to support him in accordance with a very strictly defined minimum standard of health and decency. This standard should be somewhat higher than a minimum of subsistence, but not greatly higher. In the case of children and adults who may later become fully self-supporting members of the economy, it should be high enough to enable them to continue educational and other preparation for effective future service. Extra allowances in such situations should, however, be conditional upon the effective use of time and effort. Well-designed public educational and other services, with scholarships or other grants given under rules and regulations in the light of the facts in a particular case, are vastly superior to money allowances based on averages and turned over to the individuals to use as they see fit.



The amount of money that is necessary to maintain the strictly defined minimum health and decency standard should be determined on the basis of actual facts regarding the cost and levels of living prevailing in the community in which the persons in need are living. The variations in the costs and levels of living in the United States are too great to warrant the establishment of a single monetary standard applicable to the nation as a whole. Even in some states a differentiation in standards appears necessary to allow for the differences between great urban centers and rural communities.

Relief and social security are not suitable devices to raise the level of living in states which have low levels of living. The necessity for raising the level of living in such areas calls for increasing the efficiency and earning capacity of the people either where they are or by encouraging migration to other sections where they will have greater opportunity. In this connection another distinction must be made. It is one thing for the national government to take funds from the wealthier states to help develop educational facilities and opportunities in the poorer states, because educational facilities are essential to developing the efficiency of the people. It is another matter to take income from the people in the wealthier states, with their higher living costs and standards, to give it to individuals in the poorer states to enable them to enjoy benefits higher than they have been able to earn by their own efforts. Improvement in productive capacity belongs primarily in the constructive field and not in the defensive field of relief and social security.

A rigidly established minimum health and decency standard would put a floor under the individual below which he could not fall without becoming eligible for assistance from the public treasury. On the other hand, he would definitely be placed on notice that if he desires to live at a higher standard or to have those dependent on him live at a higher level, it is incumbent on him to make provision by his own efforts. Insurance to give more than this minimum would have to be voluntary insurance. Included as voluntary insurance are the retirement systems developed by employers, public or private, as essential parts of their compensation systems. If forfeitures under such systems are prohibited by law, these systems will be an important element in the provisions for voluntary protection against risks.

### **The means test**

Unless the state is to pay benefits to persons regardless of their need, a means test is an essential part of a relief and social security

system. Under modern conditions, however, a means test may easily be stripped of the features which made it so objectionable when used in connection with the old poor laws. Today a very substantial proportion of the workers of the country are required to make annual reports on their income to the national government and in many cases also to the state government. A modern means-test system could have as its basic document the income reports. Persons with low incomes would not be free from the obligation to make a report. Instead, persons with incomes below specified figures could be required to make a report on a special form which would call for the essential facts not only regarding income but also regarding family responsibilities. If these reports revealed a level of living below the minimum standard, the allegation would be verified by suitable investigation, and if established as fact, the individual and those dependent upon him would be eligible for public assistance.

Part of the hostility toward the means test arose from other things not necessarily connected with it. Among them were (1) discretionary grants, (2) absence of precise rules and regulations, (3) absence of legislative rights, (4) inadequate appropriations, and (5) harsh and unsympathetic administration. None of these features is a necessary and inescapable feature of a means test.

A conclusion in favor of a modern means test calls for a clear statement of certain broad principles that apparently should govern in devising such a test. Immediate need results basically from the cash position of the individual or the family. An individual or a family is in need of assistance when cash cannot be obtained to provide the necessities of life. From both an administrative and a humanitarian standpoint, it is undesirable that an individual or a family should be required completely to exhaust all available resources before becoming eligible for public assistance. In many cases it is highly advantageous to have the services of the public welfare agency, if not the money grants themselves, available before all resources are exhausted and heavy debts incurred. Thus the legislation for a modern means test should make the individual or the family eligible for assistance when and if the resources fall below a sum, or a schedule of sums, set forth in the law. What sums should be allowable should be determined upon the basis of sound research.

The objective of the state in dealing with persons in need should be restoration of individuals to economic and social independence in so far as such restoration is possible. A modern means-test system should be designed to further such restoration. If restoration is the objective, the means test should not require that the individual

or the family dispose of all property, owned in whole or in part, before becoming eligible. Property owned may be an important element in that restoration. Its value as a factor in rehabilitation may greatly exceed the amount of money which it would bring at a forced sale. Proceeds of a forced sale are likely to be materially less than what would have to be spent to replace the property when and if the family or the individual is again moving toward economic and social independence. The means-test law, therefore, should permit the ownership of certain classes of property within limits and the possession of specified amounts of income, without destroying eligibility for sufficient benefits to make up the budget deficit.

If the objective of a means-test system is to alleviate the suffering that comes from want and, in so far as possible, to rehabilitate, a fairly wide use should be made of advances from public funds secured by liens. An advantage which a well-designed means-test system has over an insurance system paying fixed money benefits is that it permits adjustment to the great diversity of individual situations. If a loan transaction will further the immediate interests of the beneficiary and apparently also the long-run interests of the public, a loan suited to the particular case is preferable to a fixed money payment which may not meet the actual situation.

Liens on the property of old-age beneficiaries have a priority over the rights of such of their children or other heirs as are no longer dependent upon them for support. A common practice under a modern means-test system is not to enforce a lien against a home so long as there are eligible dependents who need it for shelter. Another common practice is to notify the children or other prospective heirs who are not living with or dependent upon the old people that a lien will be taken on the house for either all or part of the sums to be advanced. The children or heirs then have the opportunity to supply the money required to support the old people or to permit the liens to go against the property.

## Coverage

Coverage should be universal. There are persons whose conduct has been so anti-social that they are held in penal or correctional institutions. Since they are presumably receiving support while in custody, they themselves would not be eligible for assistance. Those dependent on them would be eligible if they were in need

according to the established standard. There are also persons who are lazy, shiftless, and irresponsible, and others whose habits are at least partially the cause of their difficulties. Neither they nor their dependents would be ineligible, but in return for their benefits they would be required to accept guidance and counsel from qualified public officials whose objective would be rehabilitation. The children of such families would be the concern of these officers.

### **Hazards to be covered**

The essential question is whether an individual or a family has access to sufficient resources for maintenance according to a low and strictly defined minimum standard of health and decency. What particular hazard caused the need is not the issue upon which eligibility for public assistance should turn. Causes may be of vital importance with respect to what should be done to remedy the situation. The remedy may be either in general constructive economic and social legislative action or in constructive case work with the individual, the family, or the neighborhood. It is impossible to accept the view, however, that an innocent dependent should be given aid if deprived of normal support from one cause and denied it if the loss was due to another. It is even more difficult to believe that a dependent not in need should receive a no-means test benefit because his father was covered by a certain form of social insurance paid for in part by funds other than his own, while a similar child actually in need is not systematically provided for at all. Such discrimination is introduced by legislation, often on grounds of administrative convenience or because of the power of pressure groups. Under some circumstances, which will not be discussed here, the victims of certain hazards may be entitled to a somewhat larger benefit than the victims of some other hazard. That does not mean, however, that the victims of these other hazards should be excluded from eligibility. The general conclusion is that the basic system should provide benefits for all cases of need regardless of the hazard that caused the need.

### **The size of the benefits**

The general rule should be that the amount given as a benefit should not exceed the amount required to bring the recipient to the minimum health and decency standard. The New Zealand system where it uses the means test has much to commend it. It fixes two levels, (1) a maximum benefit and (2) a maximum allowable income of personal resources plus benefits. Under this system

an individual with nothing gets the maximum benefit. If his actual income equals or exceeds the maximum of allowable benefit plus income, he gets nothing. If in need, he gets full benefit up to the point where benefit and available private resources equal the allowance maximum; above that point benefits are reduced as available private income increases until they disappear entirely at the point where private resources alone reach the allowable maximum. Under such a system the incentive to work and save is preserved to a very substantial degree, and the person who saves gets advantage from his efforts.

### Methods of financing

Relief and social security should be financed out of earmarked special taxes, with a universal flat income tax with no exemptions the preferred, although not necessarily the exclusive, tax.

The tax on employers based on pay rolls should be abolished for three main reasons: (1) it is a tax on employment, (2) it has no necessary relationship to capacity to pay, and (3) it may tend to be shifted to consumers in the form of higher prices than would be charged were there no such tax. The tax system should encourage rather than discourage expanding employment.

This recommendation does not mean that an individual, firm or corporation would entirely escape taxation for relief and social security on the ground that the individual, firm, or corporation is an employer. It would mean that the individual, firm, or corporation would entirely escape taxation for relief and social security on the ground that the individual, firm, or corporation is an employer. It would mean that the individual, firm, or corporation would pay on the basis of income. The employers with the same capacity would pay the same amount regardless of the part that labor costs played in their business expenses. The employer with high labor costs and low capital costs would pay no more than the employer with low labor costs and high capital costs.

Wage and salaried workers would still have deductions made from their pay envelopes to pay the costs of social security and relief. There would, however, be several significant differences from the present deductions for old-age and survivors insurance or for the general income tax.

1. The tax would apply to the entire income and not only to the first \$250 a month as in O.A.S.I.

2. There would be no deductions for dependents as in the case of the general income tax. A low-paid worker might at the very

time he was paying the tax be in receipt of assistance under the social security system because his resources were inadequate to support his family in accordance with the legally established minimum.

3. Although these taxes might be called social security contributions, they would be taxes pure and simple. They would have no relationship to insurance premiums for the amount of tax would bear no relationship to the amount of benefit or the degree of hazard. This tax would be a welfare tax and would not attempt in any way to disguise the facts that social security and relief are in essence welfare functions and that people who have must be called upon to pay the cost of benefits for those who have not.

Workers other than those who work for salaries and wages would pay the income tax at the same rate as salary and wage workers. All classes of workers now excluded from taxation for old-age and survivors insurance would pay.

Persons with income from savings, investments, and so on would pay, even the widow or the orphan who at the very time the tax was collected might be receiving benefits under the social security system.

The major reasons for recommending this form of taxation may be briefly summarized:

1. Every citizen should be periodically reminded of the fact that social security benefits involve heavy expenditures of tax-collected funds. The financial policy should be to couple all proposals to increase benefits with a proposal to increase the rate of the earmarked special tax by an amount sufficient to pay the additional costs. The desirability of making the people aware of costs leads to the recommendation of the special earmarked income tax with no exemptions. It is of course true that with respect to persons of low-income, the actual receipts will perhaps not equal the cost of collection and these taxpayers may currently receive more in benefits than they pay in taxes. Exemptions would, however, prevent these taxpayers from being aware of costs and would probably give rise to a movement to increase the exemptions progressively.

2. Many students of social security maintain that the payment of contributions by the prospective beneficiaries is psychologically desirable. It makes the beneficiary feel that he has paid at least part of the cost and therefore takes it as of right, and it perhaps lessens the chance that the legislature will regard the payments as pure gratuities. This point of view again leads to a preference for an earmarked income tax with no exemptions.

3. The objective of social security and relief is to banish want

in the sense in which want has been defined. A system designed to achieve this purpose must be universal, comprehensive, and co-ordinated. The simplest and most direct way to achieve this purpose appears to be to tax all persons with income, at a flat rate so fixed that on the average it will produce a sum sufficient to bring all persons who are in want up to the very strictly defined minimum standard of health and decency. No other system of taxation will give more complete coverage.

### **Co-ordination in social security and relief**

In the United States at present, responsibility for planning, financing, and administering relief and social security is divided, purely by happenstance, among the three levels of government, national, state, and local. It is inconceivable that a universal, comprehensive, and co-ordinated system could be developed with responsibility and authority thus divided. There are apparently two practical solutions, namely:

1. To transfer to the national government full and undivided responsibility and authority over relief and social security.

2. To operate relief and social security entirely upon a federal-state co-operative basis through federal grants to the states. Under such a system the national government would establish certain minimum standards with which the several states would have to comply to secure federal aid. The states would themselves administer the system, under the minimum necessary federal supervision to secure compliance with national requirements. They would be free at their own expense to go as much above the federal minimum standards as they might see fit.

Nationalization of the functions of relief and social security appears undesirable in the United States for eight major reasons:

1. Relief and social security necessitate the taking of money from one group and giving it to another, not in the form of a generalized public service believed to be in the public interest, but as money which the recipients are practically free to do with as they will. Inherent in these functions is the danger of political corruption in its worst form, the corruption of the electorate itself.

2. Among the several states of the union, there are wide variations with respect to such factors as natural resources, wealth, capacity to pay taxes, the cost of living, and the customary levels of living. Certain states are retarded, not necessarily because of lack of natural resources or opportunity to produce the goods and

services essential to the maintenance of a satisfactory level of living. The solution of their difficulties lies in increasing their productivity both through better utilization of their natural resources and better education and training of those of their people who are retarded. This objective is not to be attained by giving these people relief and social security benefits beyond the point necessary to prevent want. They may need federal assistance for a time for education and public health and the conversion of their economy to activities that will be more in balance with present-day requirements. The retarded people in such areas should be afforded an opportunity to work their way out of their present difficulties. They should not be encouraged to use their voting power to secure relief payments and social security benefits at the expense of other sections of the country.

3. Because of differences in the cost and levels of living, there are substantial differences among the states with respect to the number of dollars required as relief or social security benefits to give a satisfactory minimum standard. If the national government has exclusive jurisdiction over relief and social security, citizens living in the great centers of population in the northern areas of the country will naturally demand that relief and social security benefits be high enough to afford them protection. If the national government pays high benefits in these areas, the representatives of other areas will want like benefits for their areas. Few elected representatives from the low-benefit areas could survive if they failed to work and vote to eliminate discrimination. Political forces would operate toward uniform national rates at the level necessary for the high cost-of-living areas.

4. Since the states with relatively little capacity to pay would be contributing little toward the costs, they would be little influenced by the resulting taxes. Someone else would be paying the bills.

5. Under the American form of government a single political party is always in control of the executive branch of the national government. The policy determining officers, who direct and control the supposedly nonpolitical permanent civil servants, are appointed by the President or by other officers subordinate to him. It is almost inconceivable that the political party in control of the executive branch of the government would abstain from using the obvious power to influence voters that is inherent in the functions of social security and relief.

6. Social security and relief administration extend to every place in the United States where people live. National administration would mean that federal employees would be in contact with all



the people in the country. It would be almost inevitable that they or their superiors would be working for the success of the party in control of the executive branch of the government.

7. The administration of social security and relief call for the existence of a government of review and appeal which is superior to and has authority over the particular government that is carrying on these functions. If relief and social security are nationalized, there will be no government to which an appeal can be taken.

8. The question of what the nation can afford for relief and social security is a relative matter and depends on what it will spend for other functions, such as education and public health. If relief and social security are nationalized, there will develop strong new arguments for nationalizing education and health so that all can be co-ordinated and developed in accordance with a big central plan, centrally controlled.

For these reasons nationalization of relief and social security appears highly unwise. Instead, it seems much more promising to have the national government through grant-in-aid legislation influence the states to provide universal, comprehensive, and co-ordinated protection according to a very low minimum standard. This standard could well be based on the amount required in those states which have the lowest costs and levels of living. The standard should be designed not to raise the level of living possible through benefits above that which persons in those states can achieve if fully employed at the prevailing wages for employees in the lowest wage classes in that locality. The position is not taken that it is not highly desirable that the low wages prevailing in these states and localities should be raised. The position is that relief and social security benefits paid to persons in need should not, as a rule, be higher than the wages which they could earn through employment in occupations for which they are fitted in the communities where they dwell. Raising wages and levels of living call for constructive social and economic action and is not to be achieved by making relief and social security benefits more attractive and more advantageous than wages earned through labor.

It should be clearly stated that the minimum standard required by the national government would presumably be inadequate and unsatisfactory in states which had higher costs of living and higher wage levels. These states, however, have the resources and the tax-paying capacity to provide higher levels of relief and social security benefits if the voters of those states desire to provide them for their citizens. The national government would say, in effect, to the states: "The national government will pay to you in behalf of each resident of your state who is in need according to national

definitions exactly the same amount in dollars that it will pay on behalf of any resident of any other state who is likewise in need. If your state regards the amount thus made available for the relief of need as inadequate, it may go as far as it likes in supplementing the grant at its own expense. The national government will not force the state to pay more, nor will it tax the residents of the state more for relief and social security than is necessary to pay the uniform minimum benefit throughout the nation."

Examination of the available data with respect to the capacity of the states to pay suggests that the national grant-in-aid legislation should provide a measure of equalization. To provide equalization, the national government would supply a very substantial part of the minimum benefit. The poorest states would be required to pay a small percentage, only enough to discourage them from padding the relief and social security rolls. Other states would be required to pay from their own funds exactly the same percentage of the fixed federal grant. If they chose to pay higher benefits, they would pay them entirely from state or local funds or from the two combined.

In some states there is wide variation between the rural areas and the large cities with respect to wage levels and costs of living, and possibly also with respect to ability to support the necessary welfare functions of government. The situations do not conform to a single standard pattern. There is no single standard device to apply in every state. Every state would have a fairly wide range of possible choices. Each state legislature should answer for itself the question of what it will do, what device it will use. Each resident of the state who is in need will be entitled to the minimum grant toward which the national government would contribute. Whether more should be given and how it should be given would be for the states to decide, since they would be paying for the extra benefits with state or local funds or the two combined.

## THE TOWNSEND PLAN

Sheridan Downey, *Highways to Prosperity*, Chapter X. Chicago: Townsend National Weekly, 1940.

A STUDY OF THE Social Security Act is well calculated to give anyone not only indigestion but a severe headache. It's doubtful if more than a handful of men understand its complex actuarial

scheme, and even to them its results must remain a field of shadowy surmise. But when we turn to the Townsend Plan, it's with relief, for here is a proposal which any citizen can comprehend, a proposal whose honesty allows it simplicity, having no need of the protective camouflage of involved terms and peculiar conditions.

To begin with, the Plan calls for the payment of pensions at the age of 60, since it's apparent to everyone but the Social Security Act's apologists that we have millions between 60 and 65 who need help—badly. And, soon or late, they'll get it, for the pressure of public opinion and the increasing misery of our senior citizens will eventually force a lowering of this arbitrary age-limit. When that happens, the present law will have to move out once and for all, and usher in the Townsend Plan. The financial base of the Security Act is too weak to support even its present benefits, but if they're extended to cover those between 60 and 65, the actuarial system will break down completely. In short, only under a comprehensive consumptive tax as embodied in the Townsend proposal will those past 60 find any hope of real aid.

The second major provision of the Townsend Plan is that the pension must be spent within 35 days after its receipt. Here Dr. Townsend anticipated many economists, who now admit the danger of stagnant funds, the need of greater monetary velocity. He recognized that it was important not only to assure an increased volume of purchasing power, but to make certain that it would not be hoarded, and would return promptly to the channels of trade, stimulating business, and expanding employment. The common sense of our people and the technical advice of our economists alike urge the requirement of "enforced spending."

But the crucial question, of course, is whether or not our senior citizens are to receive enough for a secure retirement. On this test the Social Security Act, with its miserly allotments of less than average \$15 a month for half its recipients, fails completely. Just as signally, the Townsend Plan passes with colors flying, for, as will be seen, its 2 percent gross income tax will provide \$50 a month as a starter for all men and women alike, and will guarantee a steady increase thereafter as the national income rises. As our industrial machine, now in low gear, shifts into second and then into high, our national productivity will advance in huge strides and will make possible the distribution of abundance to all, the senior citizenry sharing proportionately with the rest.

Now, about that gross income tax. Would it fall upon the rich and the poor with the same impact? Not at all. For instead of following the example of the Social Security Act and placing the greater burden upon the poor, the Townsend Plan assigns it to

those who can best afford it—the well-to-do. Gross incomes up to \$3,000 a year will be exempt. Thus, the farmer, the newsboy, the bootblack, the dressmaker—everyone engaged in a business or occupation yielding a gross income of less than \$3,000 a year would not even have to file a return, nor would the mill-hand or miner earning less than \$250 a month. But the chain stores, the railroads, the utilities, the great corporations, these would be assessed upon all their gross earnings except the first \$3,000 annually. The men who received monthly salaries of \$1,000, \$10,000, or even more, would have only a small fraction of their comfortable incomes exempt. This is an elementary principle of taxation—that its heaviest burden should fall upon those best able to bear it. It does not mean, however, that the lower-income brackets would be wholly exempt from their fair share of the cost of federal pensions. Insofar as big businesses would pass along their 2% tax to the consuming public in the form of higher prices, all purchasers, of whatever income class, would be helping to support the old-age program. But those who bought most (the wealthy) would also contribute the most.

As an example of what the gross income tax would and would not mean to the small businessman, let's take the case of a used-car dealer. He has an annual turnover, let's say, of 150 cars, which he sells at an average of \$1,000 apiece. That gives him a gross income of \$150,000, but, we'll say, a net income of only \$3,000 after subtracting his costs for labor, rent, maintenance, etc. Now, confronted by the suggestion that he pay a gross income tax of 2%, or \$3,000, the dealer might throw up his hands and say—"Why, that will take away the whole \$3,000 which I had left after paying my costs. It'll wipe me out."

But that, of course, isn't the way the tax would fall at all. The consumer, not the dealer, would pay the additional 2 percent. For since the government was levying this tax upon the dealer and increasing his costs by 2 percent, he would be justified in raising the price of his cars to an average of about \$1,020, which would cover the tax and leave him the same net income as before. He would be protected against price-competition in this act, since every other car-dealer would have to advance prices at the same rate. He would simply have become the government's agent to collect the tax.

He might object: "But if we all raise prices, we may cut sales, and thus take a loss in another way." Well, sales wouldn't be cut much, if any, by a price rise of \$20 on a \$1,000 car, if all dealers were doing it at once. And if, theoretically, a sales drop should be expected, the effect of the Plan in stimulating consumption, in reducing excess savings, and in promoting recovery, will take care of sales very adequately.

At the present time the total gross annual incomes in the United States aggregate about \$365 billions. Of this amount, about \$65 billions are exempt under the Townsend bill, since they represent wages and salaries below \$250 a month, and gross business incomes of less than \$3,000 a year. This leaves us a taxable amount of \$300 billions, and a 2% levy upon it would yield \$6 billions annually. Now, if 10 millions of our senior citizens, past 60, retired from gainful employment and claimed the pension (the others remaining employed or not wishing it either because they didn't need it, or because they weren't citizens or fond of government scrutiny) the average monthly payment would be \$50. Naturally, when the economy reaches full employment, that payment would be approximately doubled, and would thereafter gradually increase with our advancing productivity.

The next query which occurs is, of course: would this 2% gross income tax distribute the national income equitably? Well, at our present national income, the \$6 billions collected would be about 8% of the actual wealth produced in the nation. And since the 10 million citizens to whom this will go comprise about 8% of the total populace, it seems a fair apportionment. But, someone might demur, some of these senior citizens who will get the 8% will also have some other source of private income, so that, as a class, they'll actually be getting more than 8% of the national income. True enough. But in reality, so few of them have any other income which would not be cut off when they retired, that it's highly doubtful if their share would rise even to 9%. And in any case, one must remember that the other members of the community, who would be receiving the balance of the national income, would have lower per capita living costs, since a large portion of their numbers would be children.

The elderly, then, will receive no more than their proportionate share of our national income. But will the payment of pensions to them increase our cost of living by even 8%? In the first place, consider the kind and extent of the expenditures which the Townsend Plan would render unnecessary. The repeal of the Social Security Act would eliminate a future 6% tax on payrolls of more than \$28 billions—or a levy of over \$1½ billions. It would also eliminate federal and state contributions to old-age charity pensions—of about \$500 millions a year. Moreover, the payments now going to hundreds of thousands of persons past 60 on WPA or other relief rolls come to at least \$200 millions a year.

Adding these several economies, we reach a total saving of \$2.3 billions—a year! Subtracting it from our anticipated cost of \$6 billions, we get a *net* tax load of \$3.7 billions—about 5% of our

national income. So the cost of living would presumably rise by about a net 5%. How would its burden be distributed? Well, the average worker would be paying from \$25 to \$100 a year in higher prices. An executive spending \$10,000 a year would contribute \$500 in taxes, while the millionaire enjoying an income of \$100,000 would give up \$5,000 of it through the raised cost of living, and the multi-millionaire disbursing \$1 million would pay \$50,000. In brief, whereas under Social Security only one-half the cost is thrown upon a consumptive tax, and one-half is exacted from the payrolls of the working class, the proceeds going largely to the families of the prosperous, here the rich man pays according to his riches, and the poor man according to his poverty, and the revenues thus derived would be distributed equally among all.

Surely, nothing could be fairer than this. Yet there are a few New Deal supporters and die-hard camp followers who gag at the notion of a gross-income tax and cling sternly to the payroll exactions of the Social Security Act. Passing over the fact that one-half the Act's revenues are garnered from a virtual consumptive tax placed on the employer, these crocodiles shed many a careful tear upon the theory that the Townsend Plan will tax consumers, depriving the workers of vital purchasing power and cruelly burdening them. What nonsense! The low-income groups under the Plan are given a 2% advantage over the higher brackets, since all wages up to \$250 a month are exempt. Therefore, we can assume that the Townsend Tax would not raise the cost of living of a man who earns less than \$250 a month by much more than 3%—and this 3% is precisely the amount to be imposed by the Social Security Act upon low-paid employees!

And remember the difference in benefits returned to this class. Under the Security Act, as we've seen, 15% of those who pay taxes will, because of unemployment or poor wages, receive not one slender dime, and another 35% will average less than \$15 a month. But under the Townsend Plan, any retired worker, however humble his pay or however acute his unemployment has been, will get at least \$50 a month. Moreover, he'll get it at 60, and not have to wait through five precarious, troubled years. If he's married, his wife will, if she too is past 60, receive an equal amount. And that will go to her, in her own right, and will equal his, as is just and decent.

The present Social Security Act is grossly unfair to all women—wives and widows alike. We've made abundantly clear the injustice wrought on widows whose husbands couldn't qualify or who couldn't supplement the wretched survivor's benefit. But the Security Act is unjust to wives also, since it allots to them only

50% of the amount received by the husband. This might be rationalized upon the claim that two can live as cheaply as one, but that doesn't explain the cruel rule that when the husband dies and leaves a widow surviving, she shall have only 75 percent of the amount allocated to him. Why a widow past 65 needs less or is entitled to less than a man must remain one of the sadder mysteries of this mysterious legislation. The Townsend Plan has no patience with such inane logic.

There's a further difference. The worker who pays his tax under the Social Security Act may well doubt if he'll ever get it back, and if he's even a bit sophisticated in the lore of economics, he'll wonder too if his payment is not contributing to a constriction of purchasing power. But a worker assisting in the support of the senior citizenry through the Townsend Plan knows that he will receive a social dividend after 60, three or four times larger than he could buy from an insurance company for the same amount. He knows, too, that this form of government savings which results in no stagnant hoards but which pays its benefits out of current revenues, will bring him even more than a pension: It will help bring him and us all, a prosperous nation operating its industrial and agricultural plant at full capacity, fed by a full purchasing power at last.

It is this fact which makes discussion of the "costs" of the Townsend Plan a trifle silly. For the effect of that recovery to full production and employment, which it will help to bring about, will, of course, far more than offset any minor rise in prices. Indeed, the extension of the demand for the products of business may result in lowering the unit-cost of these goods through spreading overhead expenses over a larger volume, in which case many prices may not rise, but actually drop. But in any event, the man on the street is hardly going to attach any significance to a slight increase in prices if it brings with it a 50% or 100% rise in his income through re-employment, pay advances, or greater profits.

The Townsend Plan, in fact, holds out an offer of assistance and security to every group. To labor, first, for it will shift a large share of the pension costs from its back to the financially stronger shoulders of the big income class. To many a burdened family, for it will lift from it the support of unfortunate parents no longer able to finance themselves. To youth, for by enabling hundreds of thousands of senior citizens to retire each year, it will open up as many jobs for newcomers upon the employment market. To business men, for though individually they may pay more and get a bit less in pensions, the Plan's effect of reducing the excess savings of all age-groups and of stimulating the buyer-power of the senior

citizenry will give such a boost to the economy as will more than compensate in rising profits for any personal tax losses.

Last, and most pertinently, to the older partners of our nation, the Plan promises their heart's wish—dignity and security. Neither the stigma of charity nor the aroma of poverty will surround their pensions. The government will finally have recognized that it was they who by honest sweat built the cities, the factories, the highways, the utilities, by virtue of which the rest of us now live, and it is they who are entitled to ample social dividends from the vast wealth they helped to create.

With these potentially massive forces marshalled behind it—labor, youth, business and the senior citizens—the Townsend Plan cannot fail of eventual passage. Its political strength grows with each year, as word spreads from its simple meetings in country towns and great cities to millions of sympathetic people. From neighbor to neighbor the message of pensions goes out with prolific power, each convert bringing a new family, a new group into touch with this revitalizing social doctrine. The plan loses no adherents; it only gains them. Its movement can go but one direction—forward. And forward with it goes the faith of twenty million Americans.

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